Uneasy Bedfellows:  
South Korea's State-Chaebol Relations

by

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Abstract

Many studies on Korean economic development exist, but few scholarly works specifically address the relationship between the state and big business groups called the chaebol. The state-chaebol relationship is an important aspect of Korean economic development, but conventional analyses fail to capture the subtleties of the dynamic and tend to moralize rather than elucidate. This study argues that predominantly negative perceptions of close government-business relations tend to obscure the significant positive effects of close co-ordination and collaboration between the state and private capital. It is not the closeness per se that matters as much as the nature and dynamic of the relationship. Moreover, a more careful look at the state-chaebol nexus reveals a relationship in flux, in contrast to the rather static image provided in the media.

Assuming that close government-business collaboration poses serious challenges to the economy, effective prescriptions must then be based on accurate diagnoses. Failing to understand the complexities of the state-business nexus prevents one from accurately diagnosing the roots of the current economic problems currently facing Korea. This thesis examines the political factors that influenced state-chaebol relations in South Korea. The causes and the importance of those factors are analyzed in terms of particular economic strategies adopted by the government, aspects of domestic politics, the economic and political influence of the chaebol and the international environment.
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Note on Korean Names

Most Korean names in this thesis are given in the Korean order, with the family name first, followed by the given name consisting of two syllables. In references to authors, the initials of those with particularly common last names will also be included for the sake of clarity. In some cases, the given names precede the family name according to common literary usage (i.e. Syngman Rhee) or in deference to an individual's own preferred usage.
Introduction

The International Monetary Fund’s (IMF) bailout of the South Korean economy in 1997 instantly created a cottage industry to explain the financial crisis, but of the myriad explanations, few explored the key role played by the government-business relationship except in terms of rent-seeking behaviour, or in its cruder form, corruption. This thesis turns to the insights of political economy instead of relying on the usual economics-oriented explanations to understand this aspect of the crisis.\(^1\) More specifically, it focuses an analytical lens on the political factors influencing the relationship between the state and big business in South Korea (hereafter called Korea).

This thesis examines fluctuations in the state-big business relationship beginning with each administration from the start of export-led industrialization in 1961 to the IMF bailout in 1997.\(^2\) The causes of change and the importance of those factors are analyzed in terms of:

- Economic strategy (i.e. financial and industrial policies, liberalization).
- Domestic politics (i.e. regime type, leadership, internal party dynamics).
- Economic and political influence of chaebol.
- International environment (i.e. opportunities and constraints for domestic actors).

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\(^1\) The resurgence of the study of political economy, particularly in the case of East Asian economic development, reflects the trend toward analyzing sources of power other than in strictly military terms. Since it also includes domestic variables in its analyses, international political economy can be seen as a “response to the perceived shortcomings in the dominant realist paradigm of international relations.” See George T. Crane and Abla Amawi (eds.), *The Theoretical Evolution of International Political Economy: a Reader* for further discussion on the historical and intellectual foundations of IPE.

\(^2\) Prior to export-led industrialization, Korea’s manufacturing base was miniscule and the predecessors of today’s *chaebol* were still only small companies catering to a limited domestic market.
These factors, derived from the theoretical perspectives outlined in the next chapter, explain why the relationship between the government and big business continued to deteriorate even as the government vacillated between pro- and anti-chaebol policies.

Much has been written on the dominant role played by the state in Korea’s economic “Miracle on the Han River.” Where it was once a source of admiration, the close relationship between the state and private capital—always suspect in certain quarters—has now become cannon fodder for the critics of the “Asian model” of development. News articles trumpet the evils of corruption and cronyism that have reduced the roar of the Asian economic tigers to a whimper. Numerous pre-crisis writings (Bello & Rosenfeld 1990, Woo 1991, Clifford 1998) warned of the intrinsic structural weaknesses in the Korean economy that were caused by the lack of transparency in corporate accounts, the widespread use of discretionary policy instruments to direct the economy, and the problem of political kickbacks.

The state-chaebol relationship is an important aspect of Korean economic development and the predominance of simplistic and moralistic analyses is problematic. Assuming that close government-business collaboration causes serious issues for the economy, effective prescriptions must then be based on accurate diagnoses. Failing to understand the complexities of the state-business nexus prevents one from accurately diagnosing the roots of the current economic problems currently facing Korea.

The lacunae

Economic perspectives have understandably dominated conventional analyses of the Korean crisis since the collapse of the Korean economy also had broader regional and global implications. After all, this was the world’s eleventh largest economy as of November 1997
and a recent inductee into the Organization for Economic Cooperation and Development (OECD). Gaining membership into the OECD, or the “rich countries club,” was a highly symbolic event for a country in which the GNP per capita in 1961 was US$82 (E.M. Kim 1997). The implications of the crisis were even more profound given the steep vertical trajectory of Korea’s economic development since 1961.

Conventional explanations focus on a range of problems such as huge private debt and firms carrying towering debt-equity ratios or over-regulation of the movement of capital. Some analysts point to the octopus-like expansion of bloated conglomerates – the chaebol – fuelled by easy access to low-interest loans from foreign creditors while others see the problem essentially as a banking crisis caused by an antiquated system, ill-equipped to deal with the sophisticated demands of modern global finance. The debate is also tinged with ideological overtones: for some, the crisis vindicates the pre-eminence of Anglo-American economic ideas and hints at intrinsic weaknesses in Korean culture, politics and society that may have contributed to the meltdown. Hence, the scholarly and journalistic communities’ analysis of the crisis resembles that of the proverbial blind men and the elephant: each perceives a part of the animal correctly, but draws only a partially accurate conclusion about the whole.

Part of the problem with purely economic perspectives is that socio-political variables are rarely, if ever, explored in any detail or depth. Sources such as *The Economist* and the

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3 The classic example of this perspective is that of the World Bank in its 1993 publication, *The East Asian Miracle: Economic Growth and Public Policy*. This publication differed from previous views in that it acknowledged, albeit somewhat grudgingly, a positive role for the state in economic development, but only insofar as government ensured the smooth working of market forces.
Far Eastern Economic Review note that Korea’s pattern of industrialization and general economic profile differ from that of ASEAN countries, particularly with regard to the stronger role of the state in Korean development. In general, however, theoretical approaches to East Asian economic development in the past have emphasized the similarities between NIEs such as Korea and Taiwan. Such studies often fail to attribute sufficient weight to the particular global-historical factors that helped these economies take off. Barry Gills (1994) argues that focusing on international, or structural, factors behind Korea’s economic development provides a better understanding of the power enjoyed by the state. A decade earlier, Bruce Cumings (1984) wrote a well-known piece about the important role of hegemonic leadership, first Japanese, then American, in laying the industrial structure for development in Korea and Taiwan.

The developmental state literature is diverse, but a unifying theme is the key role of the strong, or autonomous, state in economic development (Amsden 1989, Deyo 1987, Johnson 1987, Wade 1990, White 1988, Haggard and Moon 1993). The literature on East Asian industrialization in the past focused heavily on the role of the state versus the market or on the question of choosing the “correct” policies. Then came a shift from the crude state versus market dichotomies to more sophisticated discussions about political and institutional sources of growth in the NIEs (Donor 1992, Haggard and Moon 1990, Kang 1995, Moon and Prasad 1994). These theoretical developments had the advantage of providing greater “analytical space” to government-business relations.

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This study argues that predominantly negative perceptions of close government-business relations tend to obscure the significant positive effects of close co-ordination and collaboration between the state and private capital. It is not the closeness per se that matters as much as the nature and dynamic of the relationship. Moreover, a more careful look at the state-chaebol nexus reveals a relationship in flux, in contrast to the rather static image provided in the media.

The thesis is structured in the following way. The first chapter begins with a brief discussion of definitions then sets out the analytical framework used to examine the state-chaebol relationship. It is followed by an overview of the advantages and limitations of the developmental state literature in analyzing state-chaebol relations. The second and third chapters provide historical background on the development of the state-business nexus from the Park Chung Hee era to the Kim Young Sam era, paying particular attention to political factors influencing the relationship (See Table 1). By analyzing the reasons behind the pendulum-like fluctuations in the state-business relationship, the final chapter explains how the conflictual aspect of the relationship, rather than the collusive side, was a contributing factor of the Korean financial crisis. This study concludes with implications for the future of state-chaebol relations in Korea, especially in light of the current restructuring efforts under President Kim Dae Jung.
Chapter One
Theoretical Overview

One of the main arguments of this thesis is that the relationship between the state and chaebol in Korea was never as static as often portrayed. Each actor's position with regard to the other was always a matter of degrees, not absolutes. That is, depending on the issue area and particular international context, the state has demonstrated varying degrees of control over the private sector. The private sector, in turn, has been able to assert its interests, even during periods when state leverage over big business seemed greatest. Numerous books and articles have been written dealing with the subject of a state-business relationship in flux, but they tend to be overly state-centric, neglecting the chaebol as independent actors. The particular focus of each differs – some focus on the structural limitations of the authoritarian state (Rhee 1994) or on the weakening effect of liberalization policies on the developmentalist state (Moon 1988). Still others consider emerging domestic and international factors that are creating new pressures on the developmental state (Evans 1995, E.M. Kim 1997, Clifford 1998). Nevertheless, the active role of big business itself in transforming the dynamic is too often ignored.

The dearth of theories to explain the state-chaebol relationship in Korea makes the project of state-chaebol reform more daunting. The approaches outlined in the following section merely suggest a few means of thinking about these two key institutions and are by no means comprehensive. In the absence of an overarching theory appropriate to this

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particular problem, this chapter identifies the most influential factors in the dynamic between the state and chaebol.

It is widely acknowledged that politics plays a critical role, but few scholarly works address this particular issue. Most media commentators fail to go beyond a cursory statement or two, almost always about collusion and corruption. The next section will begin the investigation with a look at key institutions and concepts and then place them within the larger debate on Korean development.

**Terminology and definitions**

The terms “state” and “government” are used interchangeably in the literature about Korean economic development. Technically, they are discrete concepts: the state refers to “the continuous administrative, legal, bureaucratic, and coercive system” that is capable of manipulating its relations with various social groups as well as relations amongst those groups. In the liberal democratic sense, government refers to a particular, elected regime. While Korea was ruled by authoritarian regimes, the state and government were virtually synonymous. In the post-authoritarian era, conceptual differences between the state and the regime have become more pronounced, particularly as political space expands to include Korea’s nascent civil society and as the consolidation of democracy progresses.

The Korean conglomerate, or diversified business group, is the other key institution examined in this study. Conglomerates are not unique to Korea; they exist in economies as diverse as the United States, the United Kingdom, France, and Turkey. In the Korean case,
however, conglomerates were employed by the military regime as the centrepiece of their industrialization campaign. Unlike Latin American economies, which were dominated by foreign multinationals, Korea nurtured domestic private capital as the engine of growth. Driven by intense nationalism and the pressures of survival, the Park Chung-Hee regime realized that the private sector was a necessary evil for achieving its developmental goals. As Peter Evans (1998:75) notes, the anti-business attitude of the leadership did not prevent it from acknowledging that "industrialisation was the \textit{sine qua non} of regime survival." He argues that the leadership's decision to lengthen the leash of local business groups was hastened by the ineluctable requirements of industrial transformation and that ultimately, "confidence in the state's capacity was a precondition for willingness to accept the growth of private power" (Evans 1998:75).

The historical circumstances surrounding the growth of Korean conglomerates and their relationship with the state reflects the unique position of big business in the story of Korea's economic growth. It is useful to establish working definitions of these large diversified business groups that figure prominently in any discussion of Korean development. These large firms dominating the social, political and economic life of Korea so completely are most commonly referred to by the Korean moniker, "chaebol." As Myung Hun Kang notes, "the business group in late-industrializing countries is unique in that it is more diversified in unrelated products than the modern industrial enterprise on the one hand, and more centrally coordinated than the conglomerate on the other" (Kang 1996:1). The phrase "more diversified in unrelated products than the modern industrial enterprise" not only sets...
the Korean *chaebol* apart from other business groups of its ilk, but also highlights a feature that has been criticized as contributing to Korea's economic problems.

The historical origins of the Korean *chaebol* can be traced back to its colonial past. It is a version of the pre-war Japanese zaibatsu which, before being transformed into joint stock companies, were family-owned firms that diversified into a variety of industries through mergers (Woo-Cumings 1996:330). Jones and SaKong (1980) describe zaibatsu as "a system of highly centralized family control through holding companies." Even the Chinese characters representing zaibatsu and *chaebol* are identical though the pronunciations differ (Kim 1997:77; Kang 1996:11). In spite of the similarities, one major difference is that the Japanese zaibatsu were centred on their own banks and financial institutions. Until financial liberalization measures in the 1980s under the Chun Do Hwan regime, the Korean *chaebol* were completely dependent upon government-controlled financial institutions.

There are numerous definitions of *chaebol*, each differing slightly in emphasis and detail, but most scholars agree that the defining features of *chaebol* are that they are organizations run by family members with numerous affiliated companies in diversified business sectors.⁸ According to one scholar (E.M. Kim 1997:54), *chaebol* are characterized by family ownership and management based on a highly centralized and hierarchical system; able to mobilize and transfer capital, technology and human resources among affiliate companies; and engage in horizontal diversification in an extensive range of unrelated business activities. With the past exception of Kia, none of Korea's major *chaebol* are run by non-family professional managers. Most upper-echelon managerial positions are occupied either by immediate family members or by distant relatives of the owners (see Table 2).
Recognizing the chaebol's dominant role in the Korean economy, the government in the mid-1980s started to develop a set of technical definitions of the chaebol for policy regulation and empirical study. The Economic Planning Board and the central bank, define chaebol in terms of combined total assets (including those of subsidiaries) and combined bank credits (Kang 1996:12). Although such criteria set the technical number of business groups qualifying as chaebol at around forty-nine in 1990 and seventy-eight in 1992 (Kang, 1996:13), it is increasingly clear that in terms of their economic and political importance, not all chaebol are created equal. There have been a number of chaebol that have been allowed to fail or be taken over by other firms. For the purposes of this thesis, the types of chaebol under consideration will be those in the top five that hold such leverage over the state that dismantling them would not only severely destabilize the domestic economy, but would also mean political suicide.

Analytical / conceptual framework

Although the state-business relationship in Korea is a critical part of the development story, there has been surprisingly little work focusing on the political and institutional factors that influenced the relationship. Much of the developmentalist literature focuses on the effectiveness of policies and factors such as state capacity that influenced the selection of certain economic policies over others. The rationality of states in the pursuit of developmental goals is often assumed, as is their unity of action.

Scholars such as Alice Amsden offer strong arguments from a developmental state, or statist, perspective as to why the chaebol developed and came to dominate the Korean

economy to such an extent. According to this view of development, growth came as a result of effective state policies (acting as entrepreneur and taking risks that no private firm would or could undertake) which included special treatment for the large business groups that were the centrepiece of the state's industrialization strategy. Most of the credit then goes to the state's unique developmentalist features that enabled it to harness the economic power of the private sector and facilitate rapid growth.

Some scholars believe that the state has been able to provide collective goods without excessive inefficiencies because of its unique organizational characteristics. Attempts to explain the success of the state-business relationship have led some to approach it analytically in terms of a large internal capital market. Lee Chung Hoon (1992, 1997) argues that Korea's "repressed" financial system is not, therefore, necessarily less efficient than a free-market system which suffers from various market imperfections. This "quasi-internal organization" reduces transaction costs in under-developed corporate structures and will allocate resources efficiently as long as there are externally determined parameters, such as those found in an export-oriented industrialization strategy.

Lee also mentions the importance of cultural factors such as the Confucian ethos, with its emphasis on hierarchy, for contributing to the success of the quasi-internal organization. This is a familiar factor often included in explanations of East Asian economic success, but one of the main problems with this particular line of reasoning is that cultural explanations for growth may act as smoke and mirrors. They can obscure the fact that certain traits, which are assumed to be inherently "cultural," have actually been institutionalized through conscious effort as part of a broader nation-building strategy of the political elites.
Chapter One

Critiques of the statist perspective have targeted its under-conceptualization of state structure, overly simplistic dichotomization of state-society relations, and incomplete causal links made between institutions and policy outcomes (Chu 1989, Haggard and Moon 1990, Moon and Prasad 1994). Others point out that policy choices should not be perceived as the outcome of an economically rational decision-making process spit out by some disinterested, benevolent bureaucracy, but rather that they are the result of political struggles and negotiations amongst various actors (Donor 1992). Alternative approaches pay more attention to the various aspects of the relationship between economic performance and institutional arrangements (Donor 1992, Evans 1992 & 1998, Haggard & Moon 1990, Johnson 1987, Kang 1995).

THE INSTITUTIONALIST PERSPECTIVE

The institutionalist perspective is particularly useful in analysing the government-business relationship in Korea because of the following advantages over strong state approaches. First, state structure becomes subject to deconstruction, no longer a black box held above scrutiny. It is not a unitary entity, but an amalgamation of competing institutional and bureaucratic interests, executive leadership and intra-bureaucratic dynamics (Moon and Prashad 1994:365). Policy decisions then become the outcome of negotiation and compromise between the executive branch and various bureaucratic factions whose interests are concerned.

Second, the nature and extent of support that institutions lend to policy-makers also affects the degree to which the policy-making process is politicized. For example, under Syngman Rhee, the state could be characterized as “predatory” and economic policy-making
heavily influenced by politics. In this instance, the executive leadership dominated the
governing structure because the political risks involved in delegating responsibility for the
allocation of aid monies to the bureaucracy were so great. Stephan Haggard writes that
"[t]he dominance of political considerations in the making of economic policy had
institutional correlates, particularly the lack of support given to technocratic reformers"
(1990:58). This observation supports the widespread view that one of the keys to Korea’s
success was a coherent, technically competent bureaucracy that was relatively insulated from
private interests.

However, it is not just the state’s autonomy from private interests that makes the
difference, but also the nature of its connections to business. The state is able to implement
successful initiatives because of its ability to enforce its policies. Even the best policies are
useless if they cannot be implemented properly and enforcement depends on immediate
access to accurate information. As Richard Luedde-Neurath notes, “[i]nformation is
necessary not only to design and monitor the results of interventionist policies, but also to
check whether enterprise is cooperating with government authorities in following its
directives” (1988:99-100). Close interaction between the state and big business and
subsequent shifts in interests and goals can reveal the permeability of the two structures.

Institutions are not just formal structures. They are also rules and norms, “tacit and
explicit, which shape, for instance, the authority structure of the family or business firm, the
arrangements governing economic activity in an industry, or the means and avenues open to
interest groups in interacting with bureaucrats” (Moon and Prasad 1994:378). The social and
cultural milieu inhabited by actors also shape the latter’s perceptions and decision-making
processes. The motivations of individuals and groups cannot therefore be reduced by economic logic to the neoclassical view of atomistic, self-interested behaviour.

The neoclassical economic perspective assumes that the market itself should not be tampered with, but concedes that the state can play an important role in guaranteeing the ideal environment for the market to function. An opposing view depicts a more interventionist role for the state and an active exchange of economic relations between the state and society. This view, which Peter Evans (1992) refers to as “neoutilitarian,” improved upon the minimalist state of the neoclassical proponents, but tended to interpret exchange relations between the state and society in a largely negative light. That is, the state’s larger role would also make it more prone to engage in rent-seeking behaviour, or in common parlance, corruption.

Evidence of “illicit profiteering” appears as a decrease in efficiency and competitiveness as unprofitable businesses continue to be propped up by the state. Alice Amsden (1989:337) argues that the role of the state in Korea’s case has not impeded the punitive (some would say “corrective”) effects of the market on industries that fail to be competitive. The pivotal role of the developmental state in Korea’s economic growth is based on two claims. First, that the professional bureaucracy enjoyed relative insulation and autonomy from political and social pressures in the formulation of long-term economic priorities and second, that it was able to maintain its capacity to implement policies through the strategic allocation of resources and the use of diverse policy instruments.

Amsden also notes that “political loyalty was a necessary but not sufficient condition for receiving lucrative incentives” (italics added) and firms were indeed punished for
substandard performance. By keeping tight control over the financial system, the state closed off rent-seeking opportunities to the chaebol. By pursuing an export-oriented industrialization strategy, the state was discouraged from making inefficient credit allocation decisions. The threat of swift punishment by the global market ensured that choices were subject to externally determined performance criteria.

The special role that big business had played in Korea's development strategy is easily ignored by the public's overwhelmingly hostile attitude towards the chaebol. If the solution to dismantle the chaebol completely is taken seriously, then the "baby" is liable to be thrown out with the "bath water." After the Korean War, firms built from the commercial infrastructure left behind by the Japanese later developed into the present-day chaebol. They were the only domestic actors capable of competing internationally and the government ensured their success through ample financial support.

According to Amsden, business groups diversified out of necessity. As an example of Gerschenkron's late industrializers, Korea's firms suffered from a "lack of competitive advantage in indigenously developed technologies and the dangers of overspecializing in too narrow a product range when the technology required to produce it is externally controlled" (Amsden 1997:340).\(^9\) Given the critical role played by the chaebol, the problem seems to lie mainly with the fact that the business is so diversified and over-extended rather than their existence per se. In a situation where markets are under-developed and resources are scarce,

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\(^9\) Initially, the government took control of Japanese industrial properties, but it acquiesced to intense political pressure and substantial privatization took place. See Haggard (1990:58).

\(^{10}\) See Gerschenkron (1962) for an analysis of late industrializing economies. Late developing countries lack the resources and the markets necessary for rapid growth so the state provides the institutional support and entrepreneurial skills to overcome such problems.
a small number of large firms are the most effective policy instrument for a developmentalist state. Small numbers make it easier for the state to monitor progress and performance.

Relational dynamics and intervening variables

The political coalition between state and private capital was also forged and strengthened by the relentless repression of civil society and labour by the state. The connection between economic policy and politics is reinforced by the assertion that "[p]olitics cannot be separated from policy: even for strong states, the choice of economic strategies must be consistent with the structure of a country’s ruling coalition" (Donor 1992:431). In 1961 the military junta needed swiftly to "establish its political legitimacy and consolidate its power" (Koo & Kim 1992:125). Park chose to achieve these aims through rapid economic growth and attaining the cooperation of the large merchant firms was the most efficient means of doing so. The high level of administrative dominance over the private sector during the Park era remains unsurpassed, yet even the most dirigiste of Korea’s authoritarian regimes was mindful of the need for political legitimacy.

Changes in the tripartite relationship – the state’s increasing sensitivity to societal interests and increasingly hostile relationship with big business – have been facilitated by seismic political and economic changes in the international and domestic arena. In the domestic sphere, Korea moved from authoritarianism to democracy within a decade. The international environment reveals trends toward increasing protectionism, intensifying pressure for market opening from foreign governments and the internationalization of global capital flows. Each of the changes represents a set of constraints and opportunities for the state and chaebol.
Growing pluralism in domestic politics has increased the influence of labour and the middle class over the decision-making elite. Such influence is difficult to measure in absolute terms – structural adjustment measures and macroeconomic reforms still generally favour the interests of big business and foreign capital. Suffice it to say, the state has become more sensitive to societal interests because of the heightened vulnerability of the political regime to shifts in its electoral fortunes.

Korea’s economic success not only raised the volume of societal demands for equitable distribution, but it also strengthened the hand of private capitalists. Industrialists who had always chafed under government dictates, even while benefiting from its protection and subsidies, began to convert economic power into political power. For instance, the rise of electoral politics increased politicians’ dependence on entrepreneurs for campaign funds, consequently reinforcing the links between state elites and private enterprise and giving some credence to the public perception that cronyism was on the rise (Choi 1993:47). At the same time, however, the relationship between the state and big business was often antagonistic and difficult. In spite of the relationship of mutual dependence, the entrepreneurial class felt that the state’s policies were “inconsistent, unreliable, and often hostile to its interests” (Choi 1993:47). This distrust later manifested itself in the decision of Hyundai Group’s former chairman, Chung Ju Yung, to establish a new political party called the Unification National Party (UNP), later renamed the United People’s Party (UPP).¹¹

Political liberalization has seemingly created new challenges for state autonomy, but not in the way that is often assumed or easily comprehended by observers unfamiliar with

¹¹ A brief note about the name of the party: soon after it was named the UNP, Chung was advised to change it to the United People’s Party (UPP), partly because of fears that it would be confused with the Rev. Moon Sun
informal sources of state authority in Korea. Critics of the statist perspective would argue that history has shown repeatedly that even when the so-called strong East Asian states appear to have relatively few constraints on its range of action, their ability to sustain that level of insulation from societal pressures is limited (Donor 1992:400). Given that the Korean state no longer has the capacity to repress civil society or dominate private capital as in the heyday of authoritarianism, it still wields a significant amount of institutional sources of leverage vis-à-vis the other actors.

The other intervening variable to consider in our analysis is the particular set of opportunities and constraints existing in the international environment leading up to the crisis. State responses to international pressures (i.e. oil and debt crises, increasing protectionism, pressure for market opening) instigated a process that fundamentally changed the state-big business dynamic permanently. The erosion of state strength by the financial liberalization policies of the 1980s has been well documented elsewhere (Moon 1988, Lee Y.H. 1996, E.M. Kim 1997, Clifford 1998). The political elite may now be more constrained, but the institutional strength of the state, broadly defined, has not significantly eroded. For example, the president still retains considerable power over key economic ministries and can demand that the chaebol comply with reform measures.\textsuperscript{12} Measuring state strength is not about judging its overt ability to force compliance to its directives across the board. Sometimes retreat is the surest means to victory. Hence, it is important to look at the cases of conflict between the state and big business, assess which struggles were more critical than others and evaluate the outcome in terms of whose interests seemed best served.

\textsuperscript{12} For a more detailed discussion of the practical dimensions of the President's power, see Richard Luedde-
The economic reform and stabilization policies carried out in the 1980s marked a fundamental shift in the state-business relationship. As Moon (1988) argues, the state's economic liberalization efforts had a number of unintended consequences. For example, the state's attempt to curtail the horizontal, octopus-like expansion of the *chaebol* by liberalizing secondary financial institutions paradoxically gave big business more opportunities for growth and a greater capacity to assert its independence vis-à-vis the state. The macroeconomic policy and certain aspects of the structural adjustment measures (i.e. industrial restructuring) targeted big business and earned the latter's unmitigated distrust and resentment toward the state. On the other hand, financial reforms, particularly the rationalization and internationalization policies, favoured big business and strengthened its hand.

The conventional view holds that not only did the reforms introduce constraints on state action, they also affected the consistency of the state's approach to economic policy making. New governments adopted an anti-*chaebol* approach in response to political pressures. As they grappled with economic realities, the pendulum would swing back to a more pro-business stance. So throughout the 1980s, it became increasingly obvious that the state's ability to manage the economy had weakened as it became increasingly “caught among pressures from big business, small business, labor, and farmers” (Koo & Kim 1992:145).

In contrast to the conventional view, some writers argue that the state's autonomy has not been substantially reduced even with democratization (Amsden & Euh 1993, Lee Y.H.

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Neurath’s discussion about state intervention in Korea (1988:94). Lee Yeon-ho (1997) mentions the Confucian ethic, or “alternative-modern” factors, that facilitate state strength even under a democratic system.
1996, 1997). The state may no longer use overt forms of control, but nevertheless it maintains the capacity to intervene in the market by generating new institutions (Amsden & Euh 1993:388). Similarly, when channelling credit to small and medium-sized firms, the government set the minimum quota to be allocated to firms rather than leaving the decision to the financial institutions themselves. The tendency to rely on institutional-solutions rather than simply freeing interest rates to achieve the same goals reflects the state-oriented bias of the Korean developmental model. Instead of reducing regulations, reforms have created a greater demand for them and consequently, ensured a dominant role for the state:

"[r]egulations have become less coercive and political, but also more rational and powerful. They have been institutionally and systematically refined following growing private business protests against state intervention" (Lee Y.H. 1997:164).

Moreover, the IMF’s insistence on structural reforms has enabled the government to push forward politically unpopular measures that it has always advocated, giving further credence to the perception that exposure to international pressures can actually strengthen the power of the state in relation to societal forces. A recent analysis of the causes of the Korean crisis points to under-regulation, rather than over-regulation, as the problem: "[a]s for ‘crony capitalism,’ the solution lies in strengthening, not weakening, the coordinating function of the government, since this will set a clear limit on how far rules can be bent" (Chang 1998b). In the aftermath of the Asian financial meltdown, there has been growing discussion in regional and international policy-making circles of the need for a regime, similar to another Bretton Woods, to manage global finance.\(^\text{13}\) Thus, global trends toward financial

\(^{13}\text{For further discussion about the issue of co-ordinating regulations on the flow of international capital in the wake of the current crisis, see Sachs (12 November 1998), Wade & Veneroso (Sept/Oct 1998) and Wade (November 1998).}\)
liberalization that many considered to pose the greatest threat to the state apparatus may have, ironically, strengthened the case for a greater state role in managing the process of liberalization.

With minor exceptions, the central dramatis personae in the story of Korea's economic development are the state and the chaebol. Although dire economic circumstances in the early years of the Korean republic demanded a strong state role in economic development, political exigencies shaped many of the policies that established the tenor of the state-chaebol relationship. The nature of politics under the various regimes, global political and economic changes and the blistering pace of domestic economic growth presented constraints and opportunities for both the actors. The developmental alliance struck between the state and chaebol had successfully achieved rapid industrialization. But the process also unleashed forces that would lead to the breakdown of the coalition and the rise of long-repressed societal interests, ultimately increasing the level of political demands and trade-offs required by the state.

Of the various debates on Korean development reviewed in this chapter, institutionalism is most useful to analyze the state-chaebol relationship because of its sophisticated analysis of state structure, more complicated explanations for policy outcomes and the inclusion of political factors in influencing change. State-chaebol relations under each president from Park Chung Hee to Kim Young Sam will be assessed in light of key policies and reforms initiated and implemented during the respective administrations and the critical factors mentioned in the introduction.
Chapter Two
The Authoritarian Era

Although Korea’s authoritarian leaders were singularly successful at quelling and suppressing societal and political opposition for most of their tenure, they were continually dogged by their regimes’ lack of political legitimacy. Rapid economic growth was the most expedient means of acquiring legitimacy for military leaders who, despite their strong leadership abilities, lacked a secure political base within the broader population. Institutional reforms placed control over economic policy-making squarely in the hands of the executive, although economic policy was often subject to competing elite interests, the power and authority of the president was enough to overrule the machinations of the economic ministries. This chapter analyzes the key policies and reforms initiated (if not fully implemented) by each regime in the context of existing political imperatives and power configurations and the concomitant impact of the changes on state-chaebol relations. The policies and reforms addressed here fall under the categories of institutional, industrial and financial.


The origins of the chaebol have been traced to the Japanese colonial era, but the true beginnings of the massive diversified business groups are located in the Park Chung Hee period, also known as the Third Republic. At the time, the chaebol were mere shadows of what they were to become in later years. They were large (and prosperous) enough,

\[14\] It has even been claimed that the origin of some chaebol can be traced back to the Yi dynasty. A more solid fact is that approximately seventy percent of the top fifty chaebol (1987 figures) were established between 1945 and 1960 (Lee Y.H. 1997:21).
however, to have become the target of criticism from the rest of Korean society, not to mention the leader of the new military junta in power whose anti-urban, anti-capitalist leanings were well-known. The new regime’s anti-corruption measures, such as a law against the illicit accumulation of wealth, were designed to elicit the support of the highly alienated Korean polity by targeting the unpopular businessmen. It failed, however, to assuage the legacy of severe economic and social problems left by the previous regimes.

The new junta was also confronted by another problem - lack of political legitimacy. The answer was obvious to Park: legitimacy could only be attained through rapid economic development, which in turn required the cooperation of private capitalists. The conservative coalition that emerged between the state and big business worked because each was able to offer what the other needed. For the state, large private capitalists would provide the engine of growth to propel Korea into the ranks of industrialized nations. Economic success would bestow political legitimacy on the military regime as well increasing its leverage in a society that traditionally regarded soldiers with contempt. As for the chaebol, those who toed the line and performed successfully in global export markets were rewarded for their troubles by the state with monopolies in the domestic market. At the time, the chaebol represented the most significant social force with which Park had to contend as the rest of society was generally either too disorganized or feeble to mount any viable challenge.

The regime’s Achilles heel of legitimacy notwithstanding, the chaebol were securely under the control of the state and its interests were subordinated to the state’s plans for export-led growth. Paradoxically, the spectacular success of the developmental state also sowed the seeds of its own demise as the economic (and later political) power of the chaebol grew and as their export share expanded. Such growth cannot be attributed simply to a
combination of fortuitous global economic circumstances; rather, it was created in large part by international political factors as well. Two events that instigated major changes in state-
chaebol relations were the normalization of relations with Japan and Korea’s involvement in the Vietnam War.

The normalization of relations with Japan in 1965 marked a milestone in Korea’s foreign policy. In spite of bitter domestic political opposition and violent protests that foiled numerous negotiation attempts, Korea restored foreign relations with its former colonial master with the help of strong American pressure and mediation (Cumings 1997:320). The pecuniary windfall of normalized relations injected a breathtaking amount of capital into the developmental machinery. According to one scholar, Korea eventually received “a direct grant of $300 million and loans of $200 million in 1965 dollars, and private firms put in another $300 million in investment” (Cumings 1997:321). Aside from the obvious benefits to Korea’s economic development, the US pushed normalization as part of its larger vision of regional integration which included creating a bulwark against communism in Asia and creating markets for Japan (Woo 1991:90).

Similarly, Korea reaped the economic benefits of its essentially political involvement in the Vietnam War and its role can best be understood in the broader context of the American geopolitical agenda in the Pacific. The most obvious impact of the war on Korea’s development was that it jumpstarted the Korean economy in the way that the Korean War had acted as a catalyst for reviving the war-torn Japanese economy. The revenue gained from contributing troops and supplies to the Americans between 1966 and 1968 amounted to over $200 million (Woo 1991:96). More significantly, however, the formidable amount of foreign exchange earned by the conglomerates through construction and service contracts
provided an invaluable learning experience. Today’s internationally competitive firms such as Hyundai cut their teeth on American contracts during the Vietnam War, their first foray into the global market as producers of industrial sector goods. Conducive factors in the international political economy contributed to the take-off of Korean exports and subsequently the growth of the chaebol. Nonetheless, the existence of a strong developmental state made it possible for the economy to benefit from such advantages.

Policy and reform

From the outset, Park abrogated democracy in Korea, outlawing political parties and organizations, muzzling the press and barring all forms of political activity (Haggard 1990:62). He justified the move towards authoritarianism with the urgent need for economic development. Political stability was essential for economic development and in Park’s opinion, democracy was a luxury that Koreans could ill afford. The emphasis on development at the cost of democracy is evident in Park’s own justification for authoritarian rule:

In order to ensure efforts to improve the living conditions of the people in Asia, even undemocratic emergency measures may be necessary…The people of Asia today fear starvation and poverty more then the oppressive duties thrust on them by totalitarianism…The Asian people want to obtain economic equality first and build a more equitable political machinery afterward (as quoted in Haggard 1990:62).

The elections held in 1963 were a mainly a pretence to democracy and resulted in only a nominal return to civilian rule.

After taking control of the government, Park imposed a series of reforms in order to eliminate corruption and to restructure inefficient economic institutions. The junta moved swiftly, purging the old guard and promptly installing fresh blood in the bureaucracy. From
being a hotbed of political favouritism, the newly "competent and relatively meritocratic" bureaucracy became a critical source of state strength and autonomy (Moon 1997:449).

One of Park’s first moves toward restructuring the country’s economic institutions was to establish the Economic Planning Board in 1961. The EPB was designed to be the central government mechanism for coordinating and managing the country’s economic development. Its main responsibilities “included formulation of long-term economic development plans, comprehensive implementation and management of the economic development plans, and control of both domestic and foreign capital” (E.M. Kim 1997:102). It was this policy-making body that spearheaded Korea’s export drive in the 1960s as it turned away from the import-substitution industrialization (ISI) strategy of the previous governments.15

The other key instruments of industrialization were the Ministry of Trade and Industry (MTI) (formerly the Ministry of Commerce and Industry – MCI) and the Ministry of Finance (MoF). Park also restructured the financial system by nationalizing the banks and placing the central bank (Bank of Korea) under the jurisdiction of the Ministry of Finance. The central bank’s monetary board consisted of members gleaned from the EPB, the Ministry of Trade and Industry and the Ministry of Agriculture and Fishery. Thus the control of technocrats over monetary instruments became institutionalized and, consequently, protected even further from the pressure of private interests (Chu 1989:664). As Clifford puts it, if the EPB could be likened to “the brains of economic policy, the MCI and the MoF were its

hands" (Clifford 1998:49). The latter agencies dealt directly with the private capitalists and implemented the policies devised behind the closed doors of the EPB.

Vast reserves of financial resources were necessary to achieve such remarkable growth and the state was the gatekeeper of finance for decades until liberalization in the 1980s. To get big business to cooperate, the state effectively took control of sources of domestic and foreign capital through the nationalization of banks and the use of "policy loans." Policy loans were essentially government-subsidized loans that served as a carrot for firms that performed well in export markets. On the other hand, the state would also wield the stick by blocking firms’ access to capital in response to poor performance.

Controlling credit was one of the more benign dimensions of the state’s coercive capacities. The other side was the array of military and police forces employed ostensibly in the interest of national security. For practical purposes, however, they were intended rather for quelling internal unrest than dealing with the external threat from North Korea (Clifford 1998:82). "Internal unrest," in this case, meant political opposition, labour agitation and student demonstrations. The most notorious example of the state’s repressive reach was that of the Korean secret service (KCIA), a body that was "explicitly designed to spy on its own citizens, to conduct both foreign and domestic operations [sic]" (Clifford 1998:80). The KCIA developed into one of the most powerful tools used by the state to ensure corporate compliance, particularly during the darkest years under martial rule. With its extensive range of power, the state was thus well-positioned to initiate and develop the ambitious industrialization projects that President Park desired.
The cornerstone of Park’s economic development blueprint was the Five-Year Economic Development Plans (FYEDP). The first of the FYEDPs was launched in 1962; one former Deputy Prime Minister of Korea characterized the period between 1962 and 1966 as the most significant five-year period in the history of modern Korean economic development. Some scholars disagree on the relative success of the first FYEDP, but by and large, it was considered a success because it exceeded the target growth rate and proved that export-led growth was possible (see Tables 4.a – 4.h).

By the third FYEDP introduced in 1972, the focus had shifted from light manufacturing industries to an emphasis on heavy and chemical industrialization (HCI). The success of export-oriented industrialization (EOI) strategy had led to phenomenal growth for the chaebol, which made them the logical choice for spearheading the drive toward HCI. Neither the conglomerates nor the economy, however, was structurally prepared for the state’s drive to develop a heavy and chemical industries sector. It made little economic sense: the domestic market was too small to achieve economies of scale and the private sector lacked adequate capital and technology to invest in heavy and chemical industries (E.M. Kim 1997:138). Although HCI could not be justified on economic grounds, several key developments in domestic and international politics reinforced Park’s commitment to HCI.

In response to intensifying domestic economic and political turmoil, Park instituted the Yushin (Revitalizing) constitution and declared martial law in 1972. In the late 1960s, Korea experienced its first crisis of export-oriented industrialization. The economy had

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17 E.M. Kim (1997:105) declared the first of the Five-Year Economic Development Plans “a phenomenal success” while Cumings (1997:314) writes that it “never really got off the ground,” implying that it was
accumulated huge levels of private debt, both in the official financial sector and in the unofficial curb market (unorganized credit market). The crunch came when the first of the principal payments on commercial loans was due and because of the devaluation of the Korean won, the cost of foreign debt servicing for an increasing number of firms grew unbearable.

Many of these turned to the curb market for quick cash to relieve their immediate needs, but many businesses failed anyway. The country’s economic problems also increased the threat of social instability:

Labor conflicts began to rise, student and political opposition movements intensified, the agricultural sector showed signs of disaffection, and the opposition party grew into a more formidable force under the leadership of a shrewd charismatic politician, Kim Dae Jung (Koo & Kim 1992:133).

Park had just narrowly missed defeat to the opposition politician, Kim Dae Jung, in the 1971 elections, in spite of widespread rumours of fraud and vote-buying, and he needed an effective means of containing political threats to his regime. Authoritarian rule would be justified again, as it was a decade earlier, by promises of rapid economic growth and development, this time by expanding into the heavy and chemical industries.

International political factors also provided Park with greater justification to promote HCI. In 1969, Nixon announced a change in US policy on the defense of the Pacific. Later known as the Guam Doctrine, the announcement placed the responsibility for Asian military defense increasingly in the hands of Asians. Park was alarmed by the Americans’ intention to withdraw one division of troops – nearly one third of the total number of US troops on the peninsula – particularly in light of an intensifying North Korean threat. The Joint North-
South Declaration signed on July 4, 1972, instead of heralding greater rapprochement and relaxing of tensions, had only heightened the South’s feeling of insecurity, especially when confronted by the “power and discipline” of North Korean negotiators (MacDonald 1996:57).

Furthermore, only four years earlier, a 31-man North Korean commando team had been caught infiltrating the Blue House compound, getting within metres of the presidential residence before most of the agents were killed by South Korean security forces. The looming North Korean threat only seemed to grow when the USS Pueblo was seized, an alleged American spy plane shot down in international waters, and an infiltration tunnel from the North discovered at the DMZ. These events underscored the need to ensure military self-sufficiency, one of the key policy objectives of the state.

Clearly, Park had strong political motives for pursuing HCI that over-rode liberal economic arguments against it. While Park seemed to be driven by geopolitical imperatives, one scholar posits that he had planned the drive for HCI prior to these events and that it was the best means of building a home-grown military defense as well as ensuring his political survival (E.M. Kim 1997:140). The promulgation of the Yushin constitution, the Guam Doctrine and the North Korean incursions were merely additional rationale for the HCI. Moreover, HCI provided an added political benefit to the regime: by forging closer links with the chaebol, the regime could also consolidate an important base of political support.

State-chaebol relations

During most of the Park era, state-chaebol relations were generally stable with the government firmly ensconced in the dominant role of a paternalistic elder brother. In terms of financial policy, the state’s control over commercial banks allowed it to dictate the
investment decisions and discipline the behaviour of firms. The state's control of domestic
and foreign capital, reinforced by the intimidation tactics of the KCIA, stifled the capacity of
private capitalists to make independent business decisions. Because of the rigorous
institutional requirements of implementing industrial policies, the state's leverage over the
*chaebol* expanded further under the auspices of HCI. But by the early 1970s, the relationship
between the state and big business was no longer a simple patron-client dynamic.

Over the years, Korea's economic strategies (EOI and HCI) had given the *chaebol*
increasing economic and political leverage, changing the dynamic of state-*chaebol* relations
from hierarchical to more symbiotic. Factors in the international environment such as the
normalization of relations with Japan and the Vietnam War provided needed funds and
invaluable opportunities for the *chaebol* and its future growth.

Park's decision to cancel curb market loans in 1972 as a response to the crushing debt
burden of firms revealed the extent to which the government would protect the interests of
the *chaebol* over those of small- and medium-sized enterprises as well as innumerable private
middle-class borrowers. Because of the limited avenues of accumulating capital in the
1960s, many domestic businesses had turned to the informal curb market, which had the
added benefit of higher interest yields. Many of those who borrowed from the curb market
at perilously high interest did so because they lacked either the collateral or influence (or
both) to get loans through banks.

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18 As Mark L. Clifford (1998:103) explains, Korea's repressed financial system meant that not only
was the curb market an important "safety valve," but also an important means of saving. Moreover, due to the
size of the curb market (over a third of the official loan market), the moratorium threw the private economy into
chaos.
For a more detailed explanation of curb markets and their role in the financial system, see Woo (1991:113-115).
Big business, groaning under the weight of debt repayments and the IMF’s austerity measures, demanded reprieve from the government (Woo 1991). If the state did not bail them out, the large firms would simply refuse to pay taxes. The subsequent bailout devised by the state had not only relieved the economy of the pressure from high interest rates, but also had lasting economic and political ramifications. Financially, it heralded the beginning of an era of repressed interest rates and placed the control of credit allocation firmly in the hands of the state. Politically, it marked a shift in the (im)balance of the state-chaebol relationship. In the future, the government would find it increasingly difficult to dislodge the vested interests fostered by the state’s initial high-growth-at-all-costs approach to development.

CHUN DOO HWAN PERIOD (1980-1987)

Park Chung Hee’s assassination in 1979 at the hands of his own KCIA chief sparked a brief, but tumultuous period filled with optimism and hope for a more liberal political landscape. Major General Chun Doo Hwan took power in a military coup in 1980, swiftly clamping down on the fledgling democracy movement beginning to flourish in the political vacuum left by Park’s death. The effort to court the support of Korea’s burgeoning middle class initially led the Chun government to adopt an anti-chaebol stance and stabilization platform.

Chun’s approach was not original, but it was brilliantly opportunistic. Park’s death temporarily held up the price stabilization and economic liberalization measures that had already been set in motion in April 1979 with the Comprehensive Stabilization Plan. Chun swiftly adopted them, however, in an attempt to differentiate his regime from the economic
stagnation caused by the previous regime’s HCI policy. In the twilight of the Park era, “the combination of worsening economic conditions and a repressive stance toward political protest threatened to produce a broad coalition of the disaffected: opposition politicians, students, the lower strata of the labor movement, intellectuals, and church leaders” (Haggard & Moon 1990:218). Reducing the appearance of state-business collusion was, therefore, “a calculated move to overcome the political and economic crises which threatened the very survival of the fledgling regime” (Moon 1997:453).

Failing to address demands for distributive justice would not only risk destabilizing the society but, more importantly for Chun, also eliminate a potentially important base of support and legitimacy. As if to emphasize that this was a gentler, kinder dictatorship, in 1982 the Chun government announced the Fifth Five-Year Economic and Social Development Plan, which would presumably inaugurate a new period of democracy, social welfare and distributive justice (Rhee 1994:158). A vivid example of some of the government’s efforts to promote social welfare was the significant increase in the proportion of the population covered by medical insurance from 0.06 percent in 1970 to 92 percent in 1989 (Kim 1997:175).

Policy and reform

In contrast to Park, Chun was an economic neophyte and actively enlisted the tutelage of the economic technocrats who later formed the core of Chun’s economic planning team.\(^{19}\) Later, Chun’s head economic secretary, Kim Jae Ik, was able to persuade Chun to place EPB

\(^{19}\) Beginning in 1980, Chun engaged several prominent economists such as Kim Jae Ik (director general of the Economic Planning Board’s planning bureau), Kim Ki Hwan (Kim Jae Ik’s colleague at the EPB), SaKong II (later finance minister) and Suh Sang Chul (later energy minister) to teach him the rudimentary fundamentals of economics (Clifford 1998:181).
bureaucrats in key positions at the Ministry of Finance and the Ministry of Commerce and Industry (later renamed the Ministry of Trade and Industry). These ministries had previously resisted the economic reforms pushed by the EPB that threatened to reduce their authority in the financial and industrial sectors.

The EPB economists also challenged the traditional high-growth orientation of the Korean economy with their fervent belief in the free market. Monetary policy was tightened, interest rates raised, wages frozen and government subsidies cut. Not surprisingly, the technocrats' push for stabilization and rationalization of the economy alienated key segments of the ruling elite and private capital. The ruling elite included members of the military who were less concerned with economic priorities than with getting rid of political opponents through purges. The government also found its efforts stymied by big business whose privileged access to preferential loans was being threatened. The fact that the EPB technocrats had the freedom to carry out their policies in spite of mounting opposition from various quarters demonstrated the dominance of the executive leadership over society or, as Lee Yeon-ho (1996) puts it, the president's strong political integrating power.

The new regime embarked on a reform program called the Comprehensive Plan for Stabilization and Structural Reorganization. It included the devaluation of the exchange rate, reduction of domestic interest rates, tightening of money supply and government expenditure, and a curb on wage and dividend payments. Through the plan and other similar measures, the government hoped to achieve three objectives: (1) industrial restructuring, (2) financial liberalization and (3) internationalization. More specifically, this meant reducing

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20 Rhee (1994) also notes that Chun replaced other presidential secretaries (i.e. Presidential Secretary of Audit and Investigation and the Presidential Secretary for Political Affairs) for obstructing reforms.
state intervention in economic matters, promoting market mechanisms through enhanced competition, opening the domestic market to foreign goods and attracting direct foreign investment (Koo & Kim 1992:140). While these measures included many necessary reforms, they intensified rather than eased the myriad political pressures facing the government.

Overwhelming public support for the reduction of the heavy concentration of big business, in addition to economic rationale, made it a particularly attractive political gambit for the Chun government. On August 20, 1980 the government introduced a law called Investment Reorganization of the Heavy and Chemical Industries (otherwise known as the 8-20 measure), which was intended to reorganize power plant equipment and automobile industries. Ill-managed companies were targeted for reorganization and other firms permitted to buy them under favourable terms, i.e. bank loans to provide equity, generous financing, preferential taxation.

A month later, the government undertook further action to rationalize the corporate structures of the chaebol. Selected firms were exhorted to sell off any non-business real estate and any subsidiaries that were unrelated to the “main-line businesses” to which they were to limit themselves. The following year brought further pressures for big businesses when the government passed the Monopoly Regulation and Fair Trade Law in April. A Fair Trade Committee was established within the EPB to monitor collusion and unfair behaviour amongst large firms.

Bello & Rosenfeld’s (1990:74) explanation for the Monopoly Regulation and Fair Trade Law is that “some discipline and rationalization have always followed in the wake of overheated expansion." In Chun’s case, the chaebol were reined in because of the
widespread public criticism of the increasing concentration of wealth in the hands of a few families. It also sought to minimize the political risk that an economically powerful business class would pose to the regime.

The government’s plans for rationalizing the corporate structures of the chaebol had some unintended consequences. Rather than forcing conglomerates to streamline their operations, the laws permitted other chaebol to expand their own holdings, a situation Bello & Rosenfeld (1990) refer to as chaebol cannibalism. One example of this was Daewoo’s acquisition of the Korea Machinery Company, Shinjin Motors, and Okpo Shipyard. Absorbing these companies sent Daewoo on its way to “establishing a dominant position in the general-type machinery, passenger automobile, and shipbuilding industries” (Kang 1996:51).

Complementing these restructuring efforts were measures designed to encourage the growth of small- and medium-sized enterprises (SMEs). The economic benefits of cultivating a dynamic SME sector notwithstanding, the Chun government intended to woo the middle-class through these preferential policies. A Long-term Plan for the Promotion of Small and Medium-sized Industries was introduced and tax laws previously favouring the chaebol were revised (Moon 1997:456).

Also as part of the government’s efforts to channel more credit to SMEs, “commercial banks were required to set aside 35 percent to 55 percent of their newly

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21 The 1985 bankruptcy of the Kukje conglomerate is a well-known example of the government’s decision to terminate support for unprofitable firms. Its dismantling was controversial not only for the arbitrariness with which the government parcelled out Kukje’s subsidiaries to other firms, but also for being targeted when there were other large conglomerates in similarly dire financial predicaments (Clifford 1998:221, Rhee 1994:218).

22 Cho Soon (1994:79) points out that the efficiency of a country’s industrial structure depends on the balance between large enterprises and SMEs. Their relationship is complementary – the former can exploit economies
available lendable funds for these firms” (Ibid). Despite the extensive government support, loans to SMEs actually declined from 45.2 percent in 1981 to 32.4 percent in 1985 (Koo & Kim 1992:143). Moon (1988:81) cites a simple reason for this paradox: under the new system of banking liberalization, banks were reluctant to give loans to SMEs that lacked collateral.

In addition to industrial restructuring, the government made a series of attempts to bring the distorted financial sector in line with market rationality, such as the ‘real name’ financial transaction system in order to reduce tax frauds and limit the scope of the curb market. The informal curb market offered high interest, albeit high-risk, loans. It was in direct contrast with government-controlled interest rates that did not keep up with inflation and therefore offered only negative returns. After the notorious “Madame Chang case” curb market scandal, the government stepped up liberalization efforts in order to convert informal financial markets (primarily the curb market) into official ones (Kang 1996:58). Many of these reforms tended to be more superficial than substantial, indicating that the motivations behind them were often based less on economic than on political rationality.

The government’s policy of internationalization was not as well articulated as its other initiatives. Although the particulars remain vague, it generally meant increased efforts to open the Korean economy to greater foreign investment. Hence, in July 1984 the government enacted the Foreign Capital Inducement Law and 92.5% of manufacturing of scale and the latter economies of diversification.

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23 "...high inflation contributed to the expansion of the unorganized credit market or ‘kerb-market,’ which in turn came to have a major role in mobilizing and allocating investment funds. The unorganized credit market can play an important economic role in that it can act as a safety valve for organized markets and also as a retailer of small loans among friends, relatives, and small contractors” (Song 1990:72).

24 For an account of one of Korea’s biggest cases of fraud in the curb market, see Clifford (1998:194-198) and Rhee (1994:195).
industries were now open to foreign investment (Kang 1996:141). The uneven rate of market opening reveals the extent to which powerful domestic interests were able block the regime’s response to pressure from foreign governments.

**State-chaebol relations**

Unlike the unequal, but predictable state-chaebol relationship under Park, Korean capitalists could no longer rely on their mutually beneficial arrangement with the government. The Chun regime still returned occasionally to a pro-growth, pro-chaebol strategy whenever rising unemployment rates and shrinking exports loomed large. The swing back towards a state-chaebol alliance, however, belied fundamental changes to the relationship due to a number of factors.

First, the size of the chaebol ballooned throughout the 1980s in spite of the government’s attempts to rein them in: “Between 1979 and 1985, the sales of the top 10 chaebols (top 10 in 1985) grew at an annual rate of 34.5%, and their assets grew 21.8% annually” (Koo & Kim 1992:143). The phenomenal growth of the chaebol was partly due to favourable conditions in the international economy that occurred fortuitously (for Korean capitalists) as the level of state intervention declined and alternative sources of credit (non-banking financial sector and foreign creditors) sprang up. The Three Lows – low crude oil prices, low domestic interest rates and the low US dollar relative to the Japanese yen – enabled Korea’s export-led economy to take off in the 1980s, but more importantly, these conditions strengthened the hand of the chaebol vis-à-vis the state.

Another factor influencing the government-business dynamic was the differences in leadership and political exigencies. Both Park and Chun were military dictators, but due to
differences in personality and circumstance, Chun never commanded the same type of
loyalty that Park had. Chun’s efforts to differentiate himself from his predecessor through
economic reform had spread the costs of adjustment broadly throughout society while
simultaneously removing critical sectoral rewards to preferred groups. Penalizing big
business, the government’s traditional political ally, not only failed to garner the political
support of the middle-class (i.e. small- and medium-sized firms, the managerial and
professional classes) that Chun needed, but more importantly it also removed viable
alternatives to the *chaebol* (see Table 4).

Furthermore, big business was alarmed by the ascendancy of an economic cabinet
seemingly intent on embracing policies inimical to the interests of big business and tired of
being squeezed by the unceasing demands from the government for payments of “quasi-
taxes” at every turn. The 1985 bankruptcy of the Kukje conglomerate (Korea’s sixth
largest conglomerate at the time) signalled a particularly negative turn in the relationship. It
was not as much an indication that the government would no longer tolerate the excesses of
the sprawling conglomerates than a heavy-handed warning to overly presumptuous
capitalists. The state could then hardly rely on the support of the *chaebol* when it
consistently demonstrated its willingness to sacrifice the interests of big business for the sake
of political expediency.

Despite the government’s hostility to big business, its overall strategy of economic
liberalization inadvertently provided the *chaebol* with new opportunities for expansion.

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25 Quasi-taxes were compulsory “donations” to the government such as fund-raising for various state causes,
defense expenditure, needy families, sports events and veterans groups. They were an important source of
revenue for the government because they were not subject to the scrutiny of the National Assembly or the
international community (Clifford 1998:209). Chun’s Ilhae Foundation, established ostensibly to provide funds
for the families of the state officials who had died in the Rangoon bombing, became the most infamous example
Initially, the government adopted a more market-oriented approach based on a non-
discretionary industrial policy in order to reduce business concentration and improve the
efficiency of planning and co-ordination of industries. Incentives and other ways in which
the state actively intervened in the investment decisions of big business such as industrial
licensing, policy loans and industrial targeting were gradually phased out (E.M. Kim

The government, therefore, had begun to reduce the level of interventionism in the
economy, but the chaebol dominated the Korean economy to such an extent that even
eliminating preferential treatment did not level the playing field. As the private sector
matured, it had begun to provide many of the necessary services such as nonbanking
financial institutions, research institutes and laboratories, and general trading companies
(GTCs) that previously had been the responsibility of the developmental state. But because
these services were being provided by the chaebol already, removing the preferential policies
merely allowed them to replace the state as the dominant player in these areas.

Decentralizing credit allocation and reducing the flow to big business by privatizing
the financial sector allowed the chaebol to take over secondary financial institutions such as
insurance companies and credit unions. In April 1984, out of 32 short-term finance
companies in Korea, forty percent were exclusively, or jointly, owned by the ten largest
chaebol, and ninety percent were owned by the thirty largest chaebol (Kang 1996:58).

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26 Since the state maintained a variety of direct and indirect controls over the commercial banking sector, the
much-vaunted liberalization of financial services occurred mainly in the secondary financial sector (i.e.
insurance companies, credit unions) which provided another important alternative to state-controlled credit
(Haggard & Moon 1990). The secondary financial sector became an even more important alternative source of
finance for companies that were being squeezed by the government's measures to tighten control of credit to big
business.
Instead of reducing the power of big business by making the system of credit allocation more competitive, liberalizing the non-bank financial sector created an additional source of revenue for the chaebol that was increasingly beyond the reach of the government.

During the Park regime, the statist perspective seemed to describe the state-chaebol dynamic well. In the Chun era political considerations became increasingly obvious. The Chun government enjoyed strong state authority, but his military regime lacked legitimacy. The drive to establish a support base was undermined by imperfectly implemented liberalization policies that penalized everyone while failing to satisfy the interests of any one particular group. Moreover, competition between opposing perspectives within the economic ministries themselves influenced the pendulum-like direction of policies.
Chapter Three
Democratic Transition

The previous chapter has shown that the phenomenal growth of the Korean economy by the late 1980s forced the state to reassess its developmental goals and priorities. This chapter will explore further changes in the state-chaebol relationship during the beginning of Korea's transition to democracy under Roh Tae Woo then later under the democratically elected regime of Kim Young Sam.

Due to the crisis of legitimacy facing authoritarian regimes in the past, the state's policies toward the chaebol vacillated like a pendulum. Big business was a convenient scapegoat whenever the regime needed to curry favour with the public, but the state's real political strength lay in a coalition with the large conglomerate owners. The state's decision to reduce the role of industrial policies removed one of its key instruments of controlling the chaebol. International factors influenced the state-big business dynamic in the form of liberalization pressures from foreign governments as well as providing the chaebol with alternatives to state sources of credit. It is worth noting that the shifts in the state-chaebol relationship—from hierarchical to interdependent to competitive—began long before democratization took place.

The process of democratization brought an immediate, positive change to the political landscape with the inauguration of the Sixth Republic through a relatively free and open election. Liberalization in Korean politics must be evaluated according to a continuum, not in absolute terms because of domestic security considerations. For example, despite the onset of democracy, students could still be arrested for allegedly engaging in pro-Pyongyang
activities. Moreover, the expected general amnesties did not materialize, so many of the dissidents jailed under previous regimes remained imprisoned.

Although democratization opened the realm of political activity to more actors, the evidence from the Roh and Kim regimes questions the extent to which socially progressive forces influenced the highly institutionalized style of politics in Korea. It is evident by the government's new focus on social programmes that it was becoming more sensitive to redistributive pressures and social welfare. But because the government's commitment to such goals seems contingent on the outcome of institutional and internal political struggles, the influence of groups such as labour unions and SMEs due to pluralism is actually less than expected.

Historically, the state permitted dissent through only carefully controlled, state-sanctioned channels, so due to a lack of organizational experience and internal divisions, social groups continued to lack political clout, even after political liberalization had begun. Hence, the labour policy of the government became relaxed or confrontational according to the ebb and flow of the leadership's political fortunes within the ruling party, rather than pluralist pressures (Mo 1999:106-107). The lack of a majority in the presidential elections exacerbated the political vulnerability of Roh Tae Woo and Kim Young Sam, thus affecting their capacity to maintain the momentum of reform.

THE ROH TAE WOO PERIOD (1987-1992)

Roh Tae Woo, a former general and a crony of Chun Doo Hwan, was chosen to be the Democratic Justice Party's presidential candidate on June 10, 1987. Nineteen days later, Roh made an announcement that capitulated to all the democracy protestors' demands: direct
presidential elections, the release of political prisoners and the lifting of a ban on political dissidents, including Kim Dae Jung (Clifford 1998:269). He won the December election by a very narrow margin, receiving only 36 percent of the votes, thanks to the inability of the opposition to maintain a united front. Roh’s principal challengers were two of Korea’s most famous political opposition leaders, Kim Young Sam and Kim Dae Jung. Their politics diverged—the latter Kim was considered far more radical and pro-labour than the other, more mainstream one—but together they shared the majority of the votes. Had they managed to overcome their differences and keep the fragile coalition together, it is likely that Roh would not have ascended to the presidency.

Unlike his predecessor, Roh enjoyed several advantages: he had come to power peaceably and, for all practical purposes, democratically, the economy was booming partly thanks to favourable international conditions and the liberalization policies of the previous regime. From the outset, the Roh government adopted policies and measures that would disconnect its association in the public’s mind with the now discredited Chun regime. For example, the government revised 1,673 laws and decrees to remove undemocratic provisions which included expanding the freedom of press, lifting restrictions on campus autonomy, and granting amnesties (Bedeski 1994:27). This distancing was particularly important due to the political liability posed by Roh’s intimate association with his predecessor.

**Policy and reform**

The new regime responded to pressing societal demands for distributive justice and equity with the Sixth Five-Year Economic Development Plan that emphasized social welfare and balanced growth. To appease public anger over real estate speculation and unfair uses of
land, the Roh administration passed several laws restricting such activities, including the Act Limiting the Maximum Size of Housing Landholdings, the Act to Recoup Development-Induced Profits and the Act on Windfall Capital Gains Land Tax (Cho 1994:54). The government also supervised the construction of more rental housing units for urban workers and lower income families (Bedeski 1994:118). It launched various social security initiatives such as the introduction of a minimum wage system, a national pension plan and a medical insurance program.27

Public opprobrium of the chaebol was again on the rise due to the latter’s extensive activities in real estate and stock market speculation. Again, the government’s strategy was to distance itself from the chaebol by taking a tough anti-big business stance. Roh implemented measures to restrict chaebol activities (tougher land ownership and land tax laws) and place limits on their expansion (re-introduction of the ‘real name’ financial transaction system).28 The chaebol also saw their credit squeezed, their land subjected to increased taxes, and their leverage over labour reduced through labour law reforms. In 1987, the government launched a policy to eliminate cross-investments by 1990: investments in affiliated companies were limited to 40 percent of the assets, firms had until 1992 to phase out holdings in excess of the 40 percent threshold (Bedeski 1994:86).

The chaebol were far from silent on this matter. In response to the renewed attack on its interests, big business spoke out publicly against the government and even issued the

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27 Some of these measures, such as the medical insurance program, were simply continued from the last administration.
28 Moon (1997:457) explains that the ‘real name’ financial transaction system was intended to eliminate the dual structure of the existing financial system (with its large informal sector). The goal was to increase tax revenue through effective detection of financial dealings under false names and illicit accumulation of wealth through curb-market speculation. Both the Chun and Roh governments found it politically expedient to introduce this measure, but later abandoned it in face of excessive business pressures.
occasional threat. The president of FKI (Federation of Korean Industries), Koo Ja-kyung, “warned politicians – both ruling and opposition – of potential retaliation through the discretionary use of political contributions” (Moon 1997:464). Later on, Chung Ju Yung’s decision to run in the 1992 election would signify the first time that big business challenged the will of the state by entering a political contest. Although this is clearly a case in which the chaebol asserted its growing independence from the state, the slowdown in the economy probably helped to soften the government’s stance toward the chaebol as well.

By late 1989, the rosy economic situation that Roh inherited at the start of his administration had rapidly developed into galloping inflation and an overheated economy. Although the economy grew by 6.7 percent and the per capita GNP neared $5000 in 1989, in relative terms, the economy was stagnating. The trade surplus was $1 billion, only 11 percent of the previous year, and the annual ratio of the country’s exports in terms of real quantity was recorded at about negative six percent. Furthermore, the average labour cost had doubled – in won – over the past three years as a result of industrial disputes and decreasing international competitiveness (Park 1993:145). Bedeski (1994:87) suggests that Roh’s rationale for abandoning the anti-chaebol stance was the economic slump and Korea’s dependence on the chaebol’s “export prowess” to jumpstart growth. The problem with such an analysis is that it attributes the change in the government’s attitude mainly to economic factors, neglecting the broader political context.

At the time, Korea’s economic difficulties were exacerbating the political crisis facing Roh: the problem of “small government, large opposition,” or legislative gridlock, in the National Assembly. He responded by creating a mega-political party, similar to the Liberal Democratic Party in Japan, which shifted the political advantage back to the
conservative, pro-business camp. This move was intended to create more stable politics and increase the capacity of the ruling party to govern. The new, conservative majority party was comprised of the former Democratic Justice Party (DJP), former Reunification Democratic Party (RDP), and former New Democratic Republican Party (NDRP).29 Although the political merger was justified in terms of "saving the nation," most people held the cynical view that the ruling party simply wanted to consolidate its hold on power (Lee 1995:37).

These changes in the political arena were supplemented by a reshuffling of the economic cabinet. Economic progressives such as Cho Soon and Moon Hi-Gap were replaced by more moderate technocrats such as Lee Seung-Yoon, the new head of the EPB, marking a return to pro-business, high growth-oriented policies (Moon 1997:466). Per usual, the pace of social reforms slowed relatively as the new economic policy team placed a lower priority on stability and fairness (Cho 1994:55). The switch to pro-big business policies, however, also reflected divisions within the ruling party itself that comprised of the former ruling Democratic Justice Party and two former opposition groups. Much of the shift towards pro-chaebol policies could be explained by the fact that "...conservative elements within the ruling Democratic Justice Party began to take an overtly sympathetic attitude toward big business. Park Tae-Jun, chairman of the ruling party and former vice-chairman of the DKI, openly criticized the reformist push by the government to place limits on the chaebol" (Moon 1997:464-5).

Nevertheless, the shift in policy orientation did not represent a radical change in the state's intention to limit big business concentration. Although the government slowed the

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29 The merger of the dominant conservative parties effectively marginalized Kim Dae Jung's Cholla-based opposition party (previously called the Party for Peace and Democracy, now the National Congress for New
pace of economic reforms and placed a higher priority on growth to stimulate the sluggish
economy, it maintained “a more focused and selective strategy for containing the biggest
*chaebol*” (Moon 1997:467). Even the new presidential secretary, Kim Chong-In, who
believed in stimulating the economy through intervention and slowing down stabilization
measures, acknowledged the need to rein in the *chaebol*’s speculating and expansionary

Rather than penalizing the *chaebol* excessively, the government tried to balance their
growth by promoting small- and medium-sized enterprises (SMEs). Earlier in the
administration, the government tried to capitalize on the political and economic benefits of
developing its SME sector as it “ordered banks to grant 35 percent of loans to small and
middle-sized businesses, in part to deflect the growing public resentment against *chaebol*”
(Bedeski 1994:85). Even when the tide was beginning to turn in favour of big business
again, it did not completely abandon the SMEs. As the Minister of Trade and Industry
declared in February 1989: “the policy would not be to restrict *chaebol* growth but to try to
promote small and medium-sized industry so that the imbalance can be redressed” (quoted in
Bedeski 1994:87). This strategy did not have the intended effect as many of the SMEs ended
up subsumed anyway within the tentacle-like network of *chaebol* affiliates and their
suppliers.

The government instituted numerous policies intended to relieve pressure on the
private sector: the won depreciated, credit controls were eased, interest rates were improved,
and the money supply was allowed to expand. The real name financial transaction system
was re-abandoned, labour-related laws were watered down and tough real estate tax laws

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Politics) in the interim.
were eased (Moon 1997:466). In spite of the changes, the government maintained a tough line against a select group of the largest chaebol, pushing them into main line businesses and forcing them to dispose of surplus land holdings at risk of stiff penalties (Moon 1997:467). The electorate's enduring negative view of the chaebol meant that the government stood to reap significant political rewards at elections by attacking conglomerates with the highest profiles.

*State-chaebol relations*

Democratization did not change the general dynamic by drastically raising the chaebol's leverage vis-à-vis the state. While there were the expected constraints on state power such as “the reduction of administrative authority, the reinforcement of legislative power, and the freedom of the press” (Lee Y.H. 1996:162), they also strengthened the state’s autonomy with regard to big business. In fact, deferring to public opinion effectively reinforced the government’s capacity to act against the interests of the chaebol owners, even after it had received substantial campaign donations during local elections (Moon 1997:469).

Three factors most changed the state-chaebol dynamic: internal politics, constraints and opportunities in the international environment and the entry of the chaebol into politics. The creation of the mega-party, the Democratic Liberal Party (DLP), combined political progressives with more conservative elements. Roh, lacking a clear majority in the ruling party, found himself vulnerable to pressure from pro-chaebol factions within his own party. Cabinet shuffles replaced economic progressives with a new team committed, in contrast, to pro-business, high-growth policies.
External factors contributed to the expansion of big business: foreign governments continued to pressure the regime to maintain liberalization measures, especially as the Korean economy showed no signs of slowing down, and cash-strapped chaebol continued to seek out alternative sources of credit abroad.

The most significant watershed in the state-chaebol relationship during the Sixth Republic was the entry of big business interests into politics with Hyundai Group chairman Chung Ju-Young's bid for the presidency. Chung's United People's Party was unlikely to disturb the ruling party's dominance in Korean domestic politics; nonetheless, the government considered him a large enough threat to mount a counterattack. Not only were banks ordered to refuse Hyundai's requests for loans, but Chung's fourth son was also imprisoned for alleged tax evasion (Nam 1995:365).

Chung's defeat came as no surprise to savvy observers, but it was the first time that one of big business' own had ventured to challenge the government in the political arena. The fact that big business tried to take on the government outside the economic arena where it had the advantage demonstrated the extent of the large capitalists' frustration with what they considered to be the government's hostile, arbitrary policies toward those who fall from favour.

Yang (1995:93) remarks that "the direct participation of the chaebol can be seen as a political experiment chosen to make up for the Korean bourgeoisie's lack of relative autonomy—with regard not only to the state power, but also in relation to other social groups such as the middle strata and organised labour." Although the UPP was never considered to be a full-fledged liberal party in the Western sense, its success in the March 1992 general election demonstrated the political coming-of-age of Korea's entrepreneurial class (Chung
won 17.4 percent of the total votes, or 32 seats, in the National Assembly).

While the state was never seriously threatened by this challenge, the political significance of the UPP belied the image of a cosy state-business collusion. Chung was able to challenge the government as successfully as he did because of two reasons: (1) Korean politics experienced an unprecedented degree of openness since the end of authoritarianism and (2) Chung recognized the long-awaited opportunity for big business to transform its formidable economic clout into political power.


Kim Young Sam, Korea’s first civilian president in 32 years, entered office with the intention of eradicating rampant corruption in politics and setting Korea firmly on the course towards democratic consolidation and economic liberalization. Like President Clinton in the United States, Korea’s new president swept into power with a new mandate: more emphasis on the domestic economy and less on foreign policy.

In the typically Korean fashion, the Kim Young Sam (hereafter referred to as YS) government set about to distance itself from its predecessors, a wise move politically since the president had come to power on the strength of his links to the ruling party. YS immediately adopted a series of highly publicized measures to flush out corruption such as the property registration system that targeted National Assembly members and government officials. Subsequently, “seven assembly members were forced to resign or leave the DLP, 242 government officials were forced out of office, and the government sacked 1,363 government officials suspected of corruption” (Lee Y.H. 1997:157). YS also lost no time in

30 See previous section on Roh Tae Woo and the creation of the Democratic Liberal Party.
removing the remaining members of *Hanahoe* (One Mind Society), “an unofficial, clandestine intra-army fraternity of select members from several classes of the Korea Military Academy,” from positions of political power (Yoon 1996:512).31

State-chaebol relations under the YS regime became more difficult partly because of the government’s inconsistent policies regarding the chaebol. For their part, the chaebol sent conflicting signals, simultaneously wanting less government interference in the economy and more protection from foreign competitors. As well, the economic and political clout of the chaebol had increased due to increased opportunities in the global economy. The government, however, struggled with tensions emerging between democratization and globalization.

Policy and reform

The policies of economic liberalization and globalization were the hallmark of YS’s vision for a “new Korea.” The government adopted these policies in response to such challenges as the overwhelming pressure from Western governments to liberalize the economy and Korea’s impending crisis in technological development. Despite Korea’s stunning economic achievements, it faced a serious threat to its future competitiveness unless it could ensure access to advanced technologies. Whereas the specific features of liberalization policies were discernible in a variety of concrete measures, the ideological foundations of globalization encompassed broader, more ambiguous principles that contradicted the fundamental goals of democratization.

At the international level, globalization has resulted in the compression of time and space as transportation, communication and media bring the world closer together. It has made the borders of sovereign states more porous than ever—international and non-governmental organizations play an increasingly significant role in international relations. With the rise in economic interdependence as evidenced by the steady expansion of international trade, the purported decline of the nation-state has far-reaching implications for the international political economy.

For all of globalization’s benefits, there are corresponding downsides to the trend and only the state may have the adequate resources to mitigate its deleterious effects on domestic society. Globalization is not a panacea for poverty, hunger and underdevelopment because the prime driving force behind it is the free market. Unchecked, the global forces of capital accumulation can destabilize domestic societies because the free market does not operate according to national priorities. Moon (1999:29) describes the contradiction between democratization and globalization succinctly:

Whereas democratization promotes equality, justice, welfare, and quality of life, globalization is predicated on the enhancement of international competitiveness through deregulation, liberalization, and rationalization. A similar phenomenon can be found in state-business relations. Democratic ideals put the state in a strategically advantageous position in dealing with big business, but globalization has created institutional arrangements favorable to big business.

Hence, globalization does little to further the interests of the underprivileged and disenfranchised in society, but much for the privileged and powerful.

If viable countervailing social forces are non-existent, globalization can perpetuate existing economic power structures and unequal political relationships, rather than promoting democratization that focuses on expanding political participation. A study by Jongryn Mo
(1999) has argued that labour’s electoral power over democratic governments has been limited, contrary to expectations. Part of the reason for this is that labour’s previous exclusion from politics denied it an active role in negotiating the conditions of democratic transition. Moreover, the labour movement was weakened by its failure to win support from Korea’s mainly conservative voters and parties as well as by internal problems such as divisions amongst labour leaders and rival factions.

The following example highlights one of globalization’s many contradictions. As a result of the government’s rationalization policies toward the car industry, Samsung endeavoured to capture a piece of the passenger car market. Its entry was opposed on many fronts, namely rival car manufacturers and the Ministry of Commerce and Industry (MCI), on the grounds that Samsung’s entry would result in “overcompetition, diseconomies of scale, and duplication in investments” (Moon 1999:24). Samsung, on the other hand, employed the globalization argument to bolster its case, arguing that its entry into the highly oligopolistic automobile industry would raise the level of competitiveness in the domestic market. Samsung’s attitude was that if the government was truly serious about its commitment to market deregulation and liberalization, it should not interfere with the decisions of individual firms.

To bolster its position, Samsung built its automobile plant in Pusan, thereby creating political incentives for YS and other key elements of the ruling elite whose support base was in Pusan to support Samsung’s bid (Moon 1999:24-25). Samsung’s plant held the potential to rejuvenate Pusan’s faltering local economy whose industrial base had been wiped out by competition from China and low-wage Southeast Asian economies. Thus the potential
political fallout for the ruling party in the upcoming elections contributed to the
government's ultimate approval of Samsung's entry into the passenger car market.

This example can be used to illustrate several points about the challenges that
globalization poses for democratization. The government's efforts to limit chaebol
concentration, a popular policy, had been thwarted by Samsung's use of globalization and
liberalization rhetoric to justify its expansion into the over-saturated automobile market. Just
as importantly, political factors influenced the government's decision to withdraw its
opposition to Samsung's aspirations, despite exacerbating the possibility of market failure.

In the case of Korea, globalization enjoyed general support from the population
mainly because of the government's success in appropriating the rhetoric of globalization as
one of its new defining characteristics. Some scholars argue that, broadly conceived,
economic liberalization was possible because "Korea's export orientation and favourable
economic position meant that...[economic liberalization] appears to have had "few negative
effects on the population; thus opposition to the process was limited" (Hamilton & Kim
1993). They fail to mention, however, the important role that globalization ideology played
in minimizing domestic backlash; indeed, some see it as a form of "new, omnipotent
ideological tool of governance in the new era" (Moon 1999:12).

Aside from problems caused by the unquestioned pursuit of globalization, other
issues began to emerge from the liberalization and deregulation side of Kim's reforms. To
boost Korea's sagging economy, YS introduced a 100-day economic stimulus program that
included reduced interest rates, improved loan terms for small businesses, technology
investment incentives, price controls, and eased restrictions on equity issuance to foreign
investors (Cha 1993: 851). Growth was generally strong through the 1990s, but the “current account balance shifted deeply into the red and price instability continued. GDP growth topped 7.5 per cent per annum on average during the period from 1990 to 1996. The current account balance though, which had continued in surpluses since the mid-eighties, slid into deficit from 1990 onward. Most markedly, in 1996 the current account deficit widened sharply to 23.0 billion U.S. dollars, which amounted to 4.7 per cent of GDP. Total foreign debt also widened sharply from 29.4 billion U.S. dollars as of the end of 1989 to 104.7 billion U.S. dollars at the end of 1996.”

Intensifying competition from abroad and financial crises arising from Korea’s ‘high-cost, low-efficiency’ economy in the 1990s and the growing current account deficit provided strong incentives to adopt liberalization policies. The government felt increasing pressure to acquire advanced technologies in order to ensure Korea’s long term competitiveness in the global economy. Rather than directly purchasing the necessary technology, the government hoped, perhaps vainly, that opening domestic markets to foreign capital would induce foreign partners to transfer advanced technologies to their Korean counterparts.

Despite the government’s desire to make sweeping changes to the investment structure of the economy, a byzantine maze of official rules and regulations concerning licensing and investment hampered efforts to enhance international competitiveness and attract foreign investment. To this end, the government called for “…the removal of some 670 regulations on business activities, strengthened antitrust legislation, liberalization of

33 Haggard and Maxfield argue that balance of payment crises lend power to interests within and outside
distribution systems for foreign retailers, reduction of barriers to foreign investment, and expansion of business sectors in which foreign companies are eligible to purchase land” (Cha 1993:852).

Other measures included in the policy were the privatization of commercial banks, the deregulation of entry and business boundaries, and the freeing of interest rates and credit allocation. The government’s plans for radically liberalizing the financial system included freeing interest rates for major financial institutions and terminating the practice of selecting the presidents of city and local banks (Lee Y.H. 1997:158). Results, however, were uneven: “Speedy and remarkable progress was made in privatization and entry regulation, whereas the freeing of interest rates was bogged down, policy loans reappeared, and the presidents of the privatized banks continued to be appointed by the government” (Choi 1997:42-43).

Licensing procedures also grew more simplified from the mid-1980s, but nonetheless continued to be mired in bureaucratic red tape a decade later. In 1995 Samsung Group Chairman Lee Keun Hee complained that “[h]is company still needs to go through a bureaucratic maze to get government approval to build a semiconductor plant, requiring official seals to be affixed to documents over 1,000 times” (Yoon 1996:515). So in spite of the reduction of a number of barriers to foreign investment, Korea was still one of the most difficult places in the world for FDI (Gills 1996:683). This paradox reveals the persisting conflict between goals of the national economy and the rhetoric of globalization.

Despite broad support for liberalization, opposing interests within the economic and financial ministries as well as within the private sector disagreed over the rate at which government that favour capital liberalization because of the perception that such measures will raise confidence
Chapter Three

policies should be implemented. The American-trained economists at the EPB, for example, traditionally favoured rapid liberalization, whereas the officials in the Ministry of Finance usually adopted a more cautious, skeptical stance reflecting a general concern for macroeconomic stability. Aside from the ministries’ obvious philosophical differences, conflicts arose because the pace of liberalization would have a direct impact on the scope of their respective fiefdoms.

Even the most ardent proponents of liberalization in the private sector differed on the pace of reforms. Big business, for instance, preferred less government interference in the private sector, but worried about the increase in interest rates that would accompany restructuring policies. Choi (1997:24) argues that Korea's debt-based development model had, in the process of overcoming capital market imperfections, created “...an obstacle to financial liberalization as major beneficiaries of cheap loans have developed a vested interests in the low-interest regime.”

State-chaebol relations

The chaebol continued to grow in spite of the usual promises to reform that accompanied each change in government. In YS’s case, weak leadership, an economic strategy driven by globalization trends and the exigencies of internal party politics resulted in policies that strengthened the chaebol.

Beleagured first by a series of industrial accidents and public disasters34, then by a rapidly deteriorating economic situation that culminated in the IMF bailout in late 1997, YS

and induce capital inflows (Haggard and Maxfield 1996:42).

34 "The collapse of the Songsu Bridge in Seoul (21 October 1994) and an underground gas pipeline explosion caused by tunnelling in Taegu (28 April 1995) both did much damage to the government’s image. The collapse
ended his presidency a lame duck, having failed to fulfil his promises to control *chaebol* expansion. In the early stages of his administration, Kim Young Sam vigorously pursued institutional and political reforms as part of his avowed pursuit of cleaner politics and government. By the middle of his term, YS had become mired in an enormous investigation of corruption charges against the past presidents, Chun Doo Hwan and Roh Tae Woo, which he himself had initiated.

Once the initial wave of reform fervour had subsided, the results drew mixed reviews. The arbitrary and random nature in which the anti-corruption drives were conducted threw suspicion on the motives of the president. Thoroughly legitimate causes were at risk of becoming politicized when YS's inner circle remained untouched while the investigations mainly targeted the president's political opponents. It looked increasingly like an old-fashioned purge of the old guard in the guise of wholesale social and political reform (Yoon 1996:522). YS's leadership and authority were undermined by speculation that the president himself had accepted campaign funds from businesses and by his son's involvement in a bribery scandal. All these political problems undercut the president's moral leverage, making it even more difficult for him to press forward with *chaebol* reform.

The most important change in state-*chaebol* relations was the government's enthusiastic embrace of globalization as part of the strategy to build a renewed, globally competitive economy. There was also the implicit assumption that the globalization policy was to be spearheaded by big business because of their proven export capabilities. Some of the rationale came from international sources. The trend toward globalization was
increasingly evident, particularly in areas such as finance and trade. Furthermore, intensifying competition from abroad convinced the executive leadership of the need to maintain the momentum of liberalization policies.

The government's institutional capacity to control business concentration was, however, undermined by the very policies that were intended to rationalize existing corporate structures. As part of his pledge to streamline government, YS combined the EPB with the MoF into a new “super-ministry”—the Ministry of Finance and Economy (MOFE). Some scholars believe the merger increased the state’s interventionist capacity rather than limiting it since finance, budget planning and taxation were now centralized within one agency (Lee Y.H. 1997). Others argue that, along with the abolition of the five-year plans, the merger represented the “demise of planning” in Korea (Chang 1998a:1558).

The evidence tends to support the latter argument because once the government abandoned its traditional role of co-ordinating investment activities in large-scale industries, market failures such as excess capacity in semi-conductors, cars, shipbuilding and petrochemicals became more common (Wade 1998a:1539). Samsung's entry into the passenger car market illustrates how a conglomerate used the government’s rhetoric of liberalization and rationalization to further its own expansionary goals.

As for the impact of democratization, it opened up political spaces for social groups as evidenced by the burgeoning number of civic organizations such as the Coalition for Economic and Social Justice (Kyangsilyun) and the Association for Expelling Pollution (Gongchuhuyup). Various segments of civil society began to organize themselves: “Teachers, 

farmers, urban poor, intellectuals, workers, and journalists formed new public interests
groups as balancing forces against the government-controlled representational organizations”
(Moon 1999:9). Their electoral impact is still limited, however, since Korean voters tend to
be conservative and seldom vote according to class interests (Kim & Mo 1999:89).

Ultimately, the globalization strategy chosen by the government compromised the
maturing process of democratization and pluralism in Korea:

There is obviously a tension between ‘globalisation’ envisioned as the
ultimate ‘freeing’ of the chaebol, and which primarily works to their
advantage (both domestically and overseas), versus ‘globalisation’ viewed as
the ultimate spur to accelerate basic reforms toward an open competition
policy that does not work primarily in the interest of existing chaebol but,
rather, facilitates a more pluralistic, liberal, and internally ‘competitive’
economic structure (Gills 1996:678).

In response to popular demands, the government made efforts to discipline the
chaebol. In reality, however, YS was dependent on a conservative coalition as his
support base, which contributed to the pro-chaebol slant of the globalization policy.
Chapter Four
Conclusion

In contrast to conventional stereotypes, this thesis has argued for a more nuanced view of state-chaebol collaboration in Korean economic development. To this end, it examined causes of the deepening rift between the state and chaebol through the lens of institutionalism as the relationship began to shift from one that had been dominated by the state to one that was more symbiotic and interdependent. This concluding chapter revisits the causes of change—both political and economic—in state-chaebol relations. Both the state and big business experienced internal changes and concomitant shifts in relative power due to the sustained period of close collaboration. Democratization has also added a twist to the original state-chaebol dynamic with the growing political influence of societal actors. The influence of societal actors was limited, however, by the globalization policy pursued by the Kim Young Sam regime because of its bias in favour of big business.

In a new light—the state-chaebol nexus

Using insights from political economy to analyze Korean economic development, this study began with a broad overview of the developmental state, or statist, literature. The institutionalist approach, improving upon strong state theories, deconstructed the state and revealed the institutional and bureaucratic struggles behind policy decisions. It also emphasized the political imperatives, compromises and negotiations that informed the state-chaebol dynamic. The government’s economic policies instigated major changes in the state-chaebol relationship motivated largely by political rationale.
For Korea’s authoritarian leaders, a chronic lack of legitimacy fuelled their drive to establish a secure support base through high-growth and liberalization policies. Its democratically-elected leaders had to contend with political challenges to their authority from within their own parties. In Korea, the state-chaebol alliance that served the narrow political needs of the ruling elite and the broader economic needs of the country broke down with the growth of the conglomerates and maturing of the economy.\footnote{Ha-Joon Chang (1998:1557) points out a critical difference between rent-seeking cases under the Kim Young Sam government and previous regimes. The large sums of money flowing from the chaebol to government politicians and bureaucrats used to be limited to sectors such as urban planning and defense procurements, rarely involving the main manufacturing sectors. Furthermore, scandals such as the 1997 collapse of Hanbo, a major steel manufacturer, revealed the unusual situation of one particular chaebol enjoying preferential treatment, where formerly the chaebol as a group had been favoured.} Although the democratic transition brought an unprecedented level of societal influence over the policy-making process, in reality, the limited scope of popular participation in the democratic process forced the state to continue seeking, albeit reluctantly, the support of the chaebol.

Under the Park regime, the state intimidated the chaebol and the rest of Korean society through its powerful military capacities and a sinister secret service agency. The state dominated private capital by maintaining firm control over all domestic sources of credit. The exporting prowess of Korean firms was yet to be proven and, since foreign banks considered them risky investments, even the privileged chaebol had little recourse but to turn to the government for necessary funds.

Although the private sector was under the domination of the state more than at any other time, Park’s political liabilities forced him to cultivate the chaebol as an important support base. The economic strength of the chaebol that had originated in the state’s rigorous pursuit of export-led growth increased exponentially under Park’s HCI programme.
This Faustian bargain would later cost Park’s successors the leverage they needed against the conglomerates.

Indeed, a similar problem of legitimacy motivated Park’s successor, Chun, to seek an alternative to private capital as a source of support. Chun instigated economic liberalization policies partly in response to external pressures from foreign governments, but also to attract the support of domestic interests that favoured liberalization and deregulation. He tried to woo the popular vote by attacking the conglomerates, but his policies attempted to provide universalistic benefits at the expense of many vested, particularistic interests. The half-hearted measures failed to establish a solid base of support, leading instead to increasing independence of big business and a growing rift between the traditional allies.

Just as expansion under EOI became an effective political strategy for countering the state’s clout, aggressive entry into the now-privatized financial sector afforded the chaebol a modicum of freedom from state-controlled credit. The chaebol’s domination of the non-banking financial sector demonstrated not favoured status, but rather an increasing sense of vulnerability to the long (hostile) reach of the government. Rising mutual antipathy began to undermine the positive aspects of the government-business nexus: “[g]reater economic and political power means that the business community is not only less engaged in a joint project of local transformation but less willing to tolerate the level of state autonomy necessary to balance high levels of connectedness” (Evans 1997:82).

The onset of democratization during the Roh regime made the government simultaneously more sensitive to public opinion and stronger vis-à-vis the chaebol because of the reassurance of popular support. More open politics had the paradoxical effect of
increasing the regime’s vulnerability in terms of ensuring political survival and the state’s autonomy in terms of its capacity to act against the interests of the chaebol. This effect underscored the confusion caused by using “government” and “state” interchangeably in the post-authoritarian era. A new development in state-chaebol relations during this period was the political debut of private capital, spawned by the Hyundai chairman’s disgust with the government’s hostile policies.

Despite steady popular pressure to discipline the chaebol, the Kim Young Sam regime adopted a globalization policy that favoured the large conglomerates. Intensifying competition from abroad and the need to develop or acquire advanced technologies provided the YS government with a strong impetus towards adopting the globalization policy. The chaebol’s economies of scale put them in an internationally competitive position; unsurprisingly, the government’s approach to globalization was distinctly chaebol-oriented. Moreover, the policy of globalization as conceived by the YS government was not devoid of ideological and political implications: YS’s dependence on the conservative coalition within the ruling party provided further rationale for his pro-chaebol bias.

The structure of the country's domestic politics also reinforced this orientation. Only organized groups with electoral clout could influence the direction of redistributive policies, particularly those groups whose interests “have public good or externality attributes” (Kim & Mo 1999:89). That is, politicians would be more likely to respond to particularistic demands of politically significant groups that also had universalistic appeal. The chaebol fell neatly into this category. By deliberately choosing a policy that benefited the chaebol, YS reaped political benefits from the widespread appeal of his globalization policy that had, ironically, strong nationalistic overtones.
Ostensibly, the chaebol’s growing independence and the demands of a maturing economy forced the state to shift from toward a less-interventionist and more scaled-down, regulatory structure. The moral hazard explanation37 of the crisis suggests that there was greater government control over financial instruments than actually existed. In reality, deregulation of the financial sector in the 1980s had significantly loosened the state’s hold over its “most powerful industrial policy instrument.” The fervour of deregulation was taken to such an extreme that government supervision was eliminated in cases, even when it was clearly necessary, as evidenced by the uncontrolled borrowing of newly-licensed merchant banks. “Supervision over the merchant banks was virtually nonexistent, to the extent that the government was apparently not even aware of the huge mismatch in the maturity structures between their borrowings (64 percent of the $20 billion total were shortterm [sic]) and lendings (85 percent of them longterm)” (Chang 1998:1558).

The haphazard manner in which the government implemented its liberalization policies suggests that the political goal of high economic performance overrode practical concerns about the speed and applicability of some of the measures. The need for high growth was obvious for Park and Chun who were most concerned with establishing the legitimacy of their regimes. Roh and YS, on the other hand, were not faced with same sort of pressure, but they were confronted with the contradictory demands for peak economic performance and a limit on chaebol influence. The considerable political influence and independence of the chaebol further complicated matters for the state.

*Future Implications*

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37 Moral hazard is the notion that banks and other financial institutions lend substantially more than they would otherwise because of the belief that the borrowers are covered by implicit government or IMF guarantees (Wade
Under the current president, Kim Dae Jung (DJ), state-chaebol relations remain contentious, becoming even rancorous at times. In the aftermath of the IMF bailout, DJ had the unenviable task of walking a tightrope between the chaebol, reluctant (and recalcitrant) targets of restructuring plans, and labour, threatened with massive lay-offs with few prospects of a social safety net. The IMF’s prescriptions for Korea actually mirrored the sort of reforms that the state (under the aegis of the EPB economists) had begun advocating much earlier. It was already accepted in some official circles that Korea could not sustain previous rates of intense growth and its high-debt corporate structure balanced on a mountain of short-term loans needed reform. The banking system, despite past liberalization and reform efforts, remained terribly antiquated and inefficient. Market opening had begun under previous governments, but progress had been erratic; the 1997 crisis underscored the need to facilitate the participation of foreign investors in urgently needed mergers and acquisitions.

A more immediate concern for DJ is not the possibility of failing to attract enough foreign investors, but of failing to attract enough votes in next year’s parliamentary elections. The current controversy over the fate of Samsung Motors highlights how political factors can induce the government to abandon its commitment to market reforms. Business leaders and even the Korean Development Institute (KDI), an affiliate of the Ministry of Finance, insist that the Samsung automobile plant in Pusan be liquidated. The government, mindful of the potential consequences for the parliamentary elections in 2000, refuses to close the plant in Korea’s second-largest city. The government appears hypocritical for refusing to comply with straightforward market principles while criticizing conglomerates for their laggardly restructuring efforts. Yet, the political rationale for its behaviour is obvious.

In a country whose voting patterns are influenced by intense regionalism, veteran dissident Kim Dae Jung must have been all too aware of the need for political allies. He formed an unlikely coalition with the United Liberal Democrats, led by Kim Jong Pil, filled with erstwhile enemies, former followers of previous military regimes. Such a move could be easily explained by the fact that the ULD has its electoral stronghold in North Kyongsang province, a region traditionally hostile to DJ, a native of Cholla province. By forging an alliance with the ULD in the absence of a North Kyongsang candidate, DJ heightened his chances of capturing votes from that region. Hence, closing the Samsung plant in Pusan would probably cause DJ to lose his fragile foothold in such a politically important region.

The government and chaebol continue to lock horns over the pace of restructuring efforts. Executives of targeted firms have (anonymously) complained of excessive pressure from the government to push through ‘voluntary’ reforms. Ironically, the actions of the government undermine its professed embrace of free-market ideology and the ideal of a minimal, regulatory state. On June 19, 1998 one of Korea’s largest English-language dailies carried a headline trumpeting ‘credit lines of Big Five chaebols to be cut off, should they resist reforms.’ Eight days later, it reported that government-engineered business swaps had aroused the ire of foreign shareholders who resented the heavy-handedness of state-initiated restructuring.

Both the state and the chaebol are integral components of Korea’s political economy. The immediate challenge for its future is to create a new vision of each actor’s role. Possibly

38 For a detailed discussion of regionalism in South Korean politics, see Wonmo Dong (1997) and David I. Steinberg (1998).
41 Ibid, p.1.
one of the few positive effects of the recent financial crisis is that it has placed unprecedented
pressure on both parties to alter the way business is conducted. There are already budding
signs of profound change in the corporate landscape with a recent report on the role of small
businesses in spearheading economic recovery. The surprise is that it was published by a
think-tank at Samsung, Korea’s second-largest conglomerate. According to the report’s
findings, the chances for rebuilding a healthy economy with prospects for sustainable growth
depend on the smooth adjustment of both state and chaebol to their new roles.

The difficulty with applying a generic reform programme over a unique set of
political and economic circumstances are well known. Policy prescriptions are useless if
they fail to “fit,” or at least adjust to, pre-existing patterns of social interaction. The field of
organizational behaviour provides insight into some of the requirements of restructuring
Korea’s state-business relations:

Organization is more than a structure of material relations that can be cut
and pasted into better or more efficient arrangements. Organization is at
least as much about subjectivity and legitimacy and about establishing
ways of connecting to others that make sense. Organization theorists
who study industrial development demonstrate that alien ways, no
matter how abstractly better, are invariably transformed or discarded if
they do not fit in with existing patterns of social organization (Biggart

Just as Korea’s economic performance had surpassed the expectations of liberal economics, a
genuine recovery will depend on whether Koreans can hit on a solution that is appropriate for
the Korean context. It also depends on the extent to which external pressures are effectively
managed by the rough-and-tumble of domestic politics while Korea’s policymakers map out
new directions for the country’s economy.

In particular, the future of the democratization process in Korea will influence the evolution of state-chaebol relations in the post-IMF bailout era. It has already been pointed out that during the Kim Young Sam regime, the government made a conscious choice to pursue a globalization policy with a strong pro-chaebol bias. This strategy hamstrung nascent democratic forces in society, consequently stymieing the development of democratization as characterized by equality, justice, welfare and quality of life.

The lurching pace of changes in the state-business relationship, despite vociferous calls for reform, underscores the inherently political nature of the problem. If critics of the Asian model of state-led development are correct, then qualities associated with Western democracies such as transparency, accountability and openness are Korea's best insurance against a repeat of 1997's financial debacle. But as Kim Dae Jung's difficulties over the Samsung plant in Pusan attest, regionalism continues to undermine attempts at genuine reform of state-chaebol relations. Indeed, Park Chung Hee bequeathed a double-edged sword to his country: a vision of limitless economic potential coupled with profound regional cleavages. Whether Koreans will be able to preserve the benefits of the former legacy will depend on how they resolve the potentially debilitating effects of the latter.
References


Tables


**NEWSPAPERS AND MAGAZINES**


Table 1: State, society and international systems: an overview

<table>
<thead>
<tr>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Import-substitution</td>
<td>Labor-intensive export promotion</td>
<td>Industrial deepening</td>
<td>Stabilization and structural adjustment</td>
<td>Adjustment to surplus</td>
<td></td>
</tr>
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<td>industrialization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
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<td>Aid and U.S. policy</td>
<td>U.S. pressure / normalization with Japan</td>
<td>Protectionism / oil crisis</td>
<td>Protectionism / oil crisis / debt crisis / interest rate shock / pressure for market opening</td>
<td>Protectionism / won appreciation / pressure for market opening</td>
<td></td>
</tr>
<tr>
<td>intervention</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Symbiosis with</td>
<td>Mobilizational co-optation of business / exclusion of labor and rural sector</td>
<td>Selective co-optation of big business and rural sector / exclusion of labor</td>
<td>Exclusion of labor and farmers / structural dependency on big business / co-optation of middle class</td>
<td>Decreasing insulative capacity / increasing power of civil society</td>
<td></td>
</tr>
<tr>
<td>business / mobilizational co-optate of labor / neglect of the rural sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Autocratic</td>
<td>Revolutionary / mild authoritarian</td>
<td>Authoritarian</td>
<td>Quasi-revolutionary / authoritarian</td>
<td>Increasingly pluralist</td>
<td></td>
</tr>
<tr>
<td>Weak, politicized</td>
<td>Reformed bureaucracy</td>
<td>Bureaucratic autonomy from society, but executive dominance</td>
<td>Relatively high degree of autonomy</td>
<td>Decreasing bureaucratic insulation</td>
<td></td>
</tr>
</tbody>
</table>

# Table 2: Chaebol Ownership and Management*

<table>
<thead>
<tr>
<th>Rank</th>
<th>Chaebol</th>
<th>A. Founder (years)</th>
<th>B. Current chair (years)</th>
<th>Relationship of B to A</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Samsung</td>
<td>I Pyong Chol (1938 – 87)</td>
<td>I Kun Hui (1987 – present)</td>
<td>Son</td>
</tr>
<tr>
<td>2</td>
<td>Hyundai</td>
<td>Chong Chu Yong (1947 – 87)</td>
<td>Chong Mong Ku (1996 – present)</td>
<td>Son</td>
</tr>
<tr>
<td>5</td>
<td>Sunkyong</td>
<td>Choe Chong Kun (1953 – 73)</td>
<td>Choe Chong Hyon (1973 – present)</td>
<td>Brother</td>
</tr>
<tr>
<td>6</td>
<td>Ssangyong</td>
<td>Kim Song Kon (1939 – 75)</td>
<td>Kim Sok Chun (1995 – present)</td>
<td>Son</td>
</tr>
<tr>
<td>7</td>
<td>Kia</td>
<td>Kim Chol Ho (1944 – 73)</td>
<td>Kim Son Hong (1990 – present)</td>
<td>Professional Manager</td>
</tr>
<tr>
<td>8</td>
<td>Hanjin</td>
<td>Cho Chung Hun (1945 – present)</td>
<td>Cho Chung Hun (1945 – present)</td>
<td>Self</td>
</tr>
<tr>
<td>10</td>
<td>Korea Explosives</td>
<td>Kim Chong Hui (1952 – 81)</td>
<td>Kim Sung Yun (1981 – present)</td>
<td>Son</td>
</tr>
</tbody>
</table>

* As of source's date of publication.

a. Ranking based on total sales in 1994.
b. In 1999 Hyundai Group formally took control of Kia Motor Co., subsequently marking the end of Kim Son Hong's term as chairman of the company.
c. Cho Chung Hun stepped down as chair of Hanjin in 1999, dividing the leadership of the company among his three sons.

Table 3.a Targets and Performance of the First Five-Year Plan (1962 – 66)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Targets</th>
<th>Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth rate (percentage)</td>
<td>7.1</td>
<td>7.8</td>
</tr>
<tr>
<td>Investment as a share of GNP</td>
<td>22.6</td>
<td>17.0</td>
</tr>
<tr>
<td>Domestic saving as a share of GNP</td>
<td>9.2</td>
<td>8.8</td>
</tr>
<tr>
<td>Foreign saving as a share of GNP</td>
<td>13.4</td>
<td>8.2</td>
</tr>
<tr>
<td>Current account in 1966 (millions of dollars)</td>
<td>-246.6</td>
<td>-103.4</td>
</tr>
<tr>
<td>Exports in 1966(^b) (millions of dollars)</td>
<td>137.5</td>
<td>250.4</td>
</tr>
<tr>
<td>Annual average percentage change</td>
<td></td>
<td>43.7</td>
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<tr>
<td>Imports in 1966(^b) (millions of dollars)</td>
<td>492.3</td>
<td>679.9</td>
</tr>
<tr>
<td>Annual average percentage change</td>
<td></td>
<td>19.1</td>
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\(a\). Denotes figures on balance of payments basis.
Source: Cho Soon 1994

Table 3.b Targets and Performance of the Second Five-Year Plan (1967-1971)

<table>
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<tr>
<th>Indicator</th>
<th>Targets</th>
<th>Performance</th>
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<tr>
<td>Economic growth rate (percentage)</td>
<td>7.0</td>
<td>9.5</td>
</tr>
<tr>
<td>Investment as a share of GNP</td>
<td>19.0</td>
<td>26.1</td>
</tr>
<tr>
<td>Domestic saving as a share of GNP</td>
<td>11.6</td>
<td>16.1</td>
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<tr>
<td>Foreign saving as a share of GNP</td>
<td>7.5</td>
<td>10.2</td>
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<tr>
<td>Current account in 1971 (millions of dollars)</td>
<td>-95.8</td>
<td>-847.5</td>
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<tr>
<td>Exports in 1971(^b) (millions of dollars)</td>
<td>550.0</td>
<td>1,132.3</td>
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<td>Annual average percentage change</td>
<td></td>
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<td>Imports in 1971(^b) (millions of dollars)</td>
<td>894.0</td>
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\(b\). Denotes figures on balance of payments basis.
Source: Cho Soon 1994

Table 3.c Targets and Performance of the Third Five-Year Plan (1971-76)

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\(c\). Denotes figures on balance of payments basis.
Source: Cho Soon 1994
### Table 3.d Targets and Performance of the Fourth Five-Year Plan (1977-81)

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<td>Economic growth rate (percentage)</td>
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Source: Cho Soon 1994

### Table 3.e Targets and Performance of the Fifth Five-Year Plan (1982-86)

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<td>Economic growth rate (percentage)</td>
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<td>9.8</td>
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</table>

Source: Cho Soon 1994

### Table 3.f Targets and Performance of the Sixth Five-Year Plan (1987-91)

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<td>10.0</td>
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Source: Cho Soon 1994

### Table 3.g Targets and Performance of the Seventh Five-Year Plan (1992-96)

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Source: Cho Soon 1994

### Table 3.h Growth Rates of Gross Domestic Product (1990-97)

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<tr>
<td></td>
<td>9.5</td>
<td>9.1</td>
<td>5.1</td>
<td>5.8</td>
<td>8.6</td>
<td>8.9</td>
<td>7.1</td>
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Source: Bank of Korea
Table 4: Policy Cleavages and Coalitions (under Chun Doo Hwan)

<table>
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<tr>
<th>Policy</th>
<th>Contents</th>
<th>Favored Interests</th>
<th>Threatened Interests</th>
<th>Outcomes</th>
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<tbody>
<tr>
<td>Macroeconomic Balance</td>
<td>- fiscal discipline</td>
<td>International lending institutions</td>
<td>Farmers/labor/low-level civil servants</td>
<td>Restraint prevailed</td>
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<tr>
<td></td>
<td>- monetary control</td>
<td>International lending institutions</td>
<td>All sectors of the economy/big business/ruling party</td>
<td>Stop and go control, but sharp money control</td>
</tr>
<tr>
<td></td>
<td>- wage restraint</td>
<td>Business/foreign investors</td>
<td>Labor</td>
<td>Tight wage control/22.7% in ’80 to 8.1% in ’85</td>
</tr>
<tr>
<td>Structural Adjustment Measures</td>
<td>- industrial restructuring</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1) rationalization</td>
<td>Banking industry/new targeted industries</td>
<td>Big business/mature industry</td>
<td>In progress</td>
</tr>
<tr>
<td></td>
<td>2) diversification/deconcentration</td>
<td>Select small and medium firms</td>
<td>Big business</td>
<td>Monopoly regulation and fair trade law/ in progress, but limited adjustment</td>
</tr>
<tr>
<td></td>
<td>- financial reform</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1) liberalization/ bank autonomy</td>
<td>Banking industry/savers</td>
<td>Big business/curb market</td>
<td>Privatized five commercial banks/gradual elimination of policy loans</td>
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<td></td>
<td>2) rationalization</td>
<td>Big business/ banking financial industry/technocrats</td>
<td>Curb market/ruling party</td>
<td>The rise of secondary financial institutions/real name deposit system</td>
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<tr>
<td></td>
<td>3) internationalization</td>
<td>Big business/foreign interests</td>
<td>Local banking industry/loose coalition of nationalist opposition</td>
<td>Preferential treatment of foreign banks/gradual opening of security market</td>
</tr>
<tr>
<td></td>
<td>- foreign economic reform</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1) import liberalization</td>
<td>Importer/foreign interests</td>
<td>Farmers/small-medium firms/technocrats (MCI/MOA/MOH)/ loose coalition of popular sector</td>
<td>Liberalization from 68.6% in ’80 to 87.7% in ’85</td>
</tr>
<tr>
<td></td>
<td>2) liberalizing FDI</td>
<td>Local partners/foreign interests</td>
<td>Potential competitors/loose coalition of political opposition</td>
<td>Opening of 480 industrial sectors to FDI with 100% equity</td>
</tr>
</tbody>
</table>

Source: C. Moon 1988